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China Report

ECONOMIC AFFAIRS



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1 OCTOBER 1986

CHINA REPORT

ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

URBAN LEADERS POINT OUT 'PAINFUL TRUTH' OF PROBLEMS

HK040107 Beijing CHINA DAILY in English 4 Sep 86 p 4

["Opinion" Column by Zhang Bian: "Urban Planners Eye New Role of Cities"]

[Text] Urbanization in China is being carried out at such speed that urban planners have no choice but to join hands with social scientists and officials to deal with increasing problems.

The number of city governments grew from 191 in 1978 to 324 in 1985 and will probably reach 600 in the year 2000. By then, there may be some 20,000 townships (or smaller cities). Cities and townships will accommodate as many as 400 million people, or one-third of the expected population.

In addition, economic reform in urban areas is bound to redefine the role of cities. Since the end of last year, seven cities (Shashi, Changzhou, Chongqing, Wuhan, Shenyang, Nanjing and Dalian) have been acting as guinea pigs in comprehensive economic reform. And since early this year, 16 medium-sized cities have been experimenting with reform in the functions of municipal governments.

However, when hundreds of theorists, engineers and mayors were holding a conference on urban planning in Tianjin last week, they had much experience to share. There was the first annual session of the Chinese Society of Urban Studies. Closely following their deliberations was a big flock of journalists for more than a dozen periodicals reporting the nation's urbanization process.

This was a fairly encouraging indication of a change in the view of the role of cities in the growth of civilization. ("The city is the origin of modern civilization," a Qinghua University professor told his audience.)

It also shows that the Chinese, at long last, are beginning to treat urban planning as a science.

They pointed out the painful truth that Chinese cities, the nation's political, economic and cultural centers, have always received inadequate attention when they were not being completely ignored. As a result, they face more problems than they probably should—from traffic jams, power cuts, water shortages, and crowded housing to centralized control of finance.

Wu Liangyong, the noted urban planner, stressed the importance of urban culture. He pointed out that 90 percent of China's intelligentsia cluster in the cities. But he lamented that they do not have access to enough cultural facilities. He said Beijing's Zhongguancun area, where 1 percent of the nation's senior intellectuals live, does not even have a good bookstore.

Land Use

While most mayors were talking about levying land use fees on local industries and business to support municipal construction, the theorist Zhou Lin called for making construction a real industry.

In China, land is never officially priced and use of land is inadequately taxed. Moreover, rent is so low that any investment in apartment buildings can hardly be recovered during the residents' lifetime. Housing is regarded as a kind of welfare instead of a commodity. As a result, he said, the construction industry is seriously stymied.

He said Chinese are often told that rent takes about one-third of Westerners' incomes, which is said to be a bad thing. But if all Westerners spend one-third of their incomes on housing, that means one-third of society's wealth is used to build better shelters, he said.

That is why the construction industry could become a leading force in a nation's economic development, he said. He also told CHINA DAILY that he was trying to get his argument published as quickly as possible.

Professor Hu Zhaoliang of Beijing University seemed to be looking at the future of cities from another angle. The capital cities of all existing socialist states are the biggest cities in their countries, he noted. This is determined by their highly centralized political and economic system, he said. So Beijing's program to curb the growth of urban population will be hard put to meet its target, he concluded.

At the same time, the specialist on urban geography also noted that in some provinces, more than one economic center is emerging because of the reform and the modernization.

It might be a good thing, he indicated to CHINA DAILY. For instance, there are Shenyang and Dalian in Liaoning Province, Jianan, Qingdao and Yantai in Shandong Province, and a group of booming towns in Jiangsu Province. Professor Hu said that their existence will call for more decentralized administration in due time.

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NATIONAL POLICY AND ISSUES

JINGJI YANJIU ON ECONOMIC UNCERTAINTY, BANKRUPTCY

HK290215 Beijing JINGJI YANJIU in Chinese No 7, 20 Jul 86 pp 40-45

[Article written in May 1986 by Wu Ming [0702 7686] of the University of Science and Technology for National Defense: "Uncertainty of Economic Prospects and Bankruptcy of Socialist Enterprises"]

[Text] Establishing an enterprise bankruptcy system under socialist conditions has been a major issue in our economic reforms. This article attempts to examine the absolute necessity for, and other associated questions of, establishing a socialist enterprise bankruptcy law, starting from the objective economic circumstances of the socialist, planned commodity economy, based on the premise of the common development of socialist credit relationships and taking the uncertainties of economic prospects as the major lead.

I. That Enterprises Have Been Suffering from Long-term Losses Under the Old System Does Not Prove the Absolute Necessity for the Establishment of an Enterprise Bankruptcy System

An enterprise bankruptcy system refers to an arrangement under which when the debtor fails to repay the debts which are due, the court may accordingly declare the bankruptcy of the enterprise and tie up its property for the repayment of the debts. When analyzing the absolute necessity of establishing a socialist enterprise bankruptcy law, it has always been pointed out that because of the lack of an enterprise bankruptcy law over the past years, enterprises have not been sustaining any pressure from bankruptcy. The operators have been indifferent to long-term losses and have not been concerned with the operating conditions of their enterprises. It is felt that establishing the enterprise bankruptcy law may eliminate those backward enterprises whose performance has been extremely bad on the one hand, and improve the management of business operation and increase economic profits by exerting pressure on the enterprises on the other. It has to be acknowledged that the above analysis has a certain degree of validity. However, it has failed to examine the various complicated reasons for the enterprises' long-term losses and has created the impression that the failure in properly handling the enterprises' long-term losses in the past was due to the lack of an enterprise bankruptcy law and that this could be rectified by the establishment of such a law. In reality, the problem is far from that simple. There are complicated reasons for the past

phenomenon in which, enterprises have been able to exist in spite of long-term losses and this cannot be eliminated simply by establishing an enterprise bankruptcy law.

First, strategic losses are protected and covered by the state in the form of financial subsidies. The state may examine loss plans and stipulate that losses which exceed the plans will not be covered. However, in actual practice, bankruptcy proceedings will not be applicable to this category of enterprises in spite of long-term losses which have exceeded the plans, because the products of these enterprises usually fall under the category of products which need protection and development and also the production capacity of the enterprises cannot easily be transferred to other department.

Secondly, our state has for a long time been adopting a single state-determined pricing model. The pricing system is so twisted and the price management system so inflexible that the price of most commodities neither reflects their value nor the supply-demand relationship. This has led to prices of certain commodities being set on the low side, rendering enterprises which produce these commodities unable to make profits and resulting in losses. This situation can obviously only be rectified by the reform of the price management system bringing the pricing system to a more reasonable level.

Thirdly, our state has for a long time been implementing the system of state mandatory planning. While the state mandatory plans have to be implemented even when they fail to reflect fully the market demand situation, there will be problems with the sale of the products and serious accumulation of stocks, resulting in losses. Obviously the enterprises should not be responsible for such losses.

Fourthly, the enterprises are not empowered to adjust in a timely way the ratio and quota of various production elements according to the production operation conditions. For instance, they have no authority to dismiss but continue to employ surplus staff and workers when there is a need to reduce the production volume. The enterprises have been as a matter of fact performing certain social welfare functions. Under these circumstances, the enterprises will not be able to save themselves from the problems but must wait for their death even when they have to sustain the pressure of a bankruptcy law.

Fifth, under the old economic system, enterprises have been the appendices of departments and local administrative structures. There are rigid restrictions in the source of materials, product structure, operation direction and they are therefore unable to adjust flexibly when losses are incurred.

Sixth, in our state, leaders of enterprises are often appointed by superiors. Therefore, the enterprises do not have the power to select and employ the enterprises leaders even when they are unable to manage and operate properly.

Seventh, there have been prosperous periods for those enterprises which are suffering long-term losses. Most of the profits were however channelled to either the superior department or the various echelons of the government structure for other uses, under the pretext of a tax on profits or various forms of distribution or quotas. This has led to a shortage of development funds for the enterprises concerned.

Based on the above, it is obvious that the fact that in the past so many enterprises, which have been suffering from long-term losses, continue to exist is directly associated with the old economic system. There is not only a lack of internal demand for the establishment of an enterprise bankruptcy law in the various economic relationships formed under this system but also a direct conflict with the spirit of the enterprise bankruptcy law. As pointed out by Hungarian economist Gao Erman [7559 3643 2581], until and unless the question of the socialist economic system is resolved, profits will not be able to reflect accurately the actual operation situation of enterprises. Establishing an enterprise bankruptcy law at this stage is meaningless. "Bankruptcy" is only indicative of an opinion of the finance department, or a bank of an enterprise. If it is considered not operating properly, it will go bankrupt. There is truth in Gao Erman's theory. It reflects the question: The phenomenon of enterprises suffering from long-term losses under the old system does not fully explain the absolute necessity for establishing a [socialist enterprise] bankruptcy law.

II. Establishing Healthy and Common Credit Relationships Is the Foundation for Establishing Enterprise Bankruptcy Law

Enterprise bankruptcy being a form of economic law is a reflection of certain economic relationships at the high level structural area. This category of economic relationships will not be able to form under the old system and will only be established along with the development of a new system in the process of reforms of our state's economic system. Therefore, the analyses of the absolute necessity for establishing a socialist enterprise bankruptcy law should be made based on a new economic system and should comprehensively explain the relationship between the economic parties in the new economic system and how the economic behavior of these persons creates the internal demand for the establishment of enterprise bankruptcy law.

The purpose of an enterprise bankruptcy law is to inflexibly adjust the credit/debit relationship between the economic parties through legal means. This requires the economic parties to adopt strict budgetary controls. Under the new economic system, the state adopts a macroeconomic indirect control method in the management of basic level economic units and will not directly intervene with their production operation. Enterprises are independently operating economic entities which are responsible for their own profit and loss. Their funds, apart from funds of their own, come mainly from bank loans. The various specialized banks, being independently operating enterprise banks and responsible for their own profit and loss, have to rely on interests from loans as the major source of profit. Under

this condition, strict budgetary controls will make it necessary for the establishment of an enterprise bankruptcy law when debts occur between economic parties.

However, the establishment of an enterprise bankruptcy law is also dependent on the foundation of popular and healthy credit relationships.

Debt relationships in a commodity economy are actually credit relationships. These are the type of money or commodity exchange relationships which commodity producers establish between themselves on the condition of repayment. The extent of development of these credit relationships is indicative of the extent of the development of a commodity economy.

With the socialist economy being a special form for commodity economy, credit relationships remain an important form in which socialist enterprises establish contacts with the outside world. Under the credit system, on the one hand, enterprises buy material and sell products on credit.

On the other hand, enterprises will be able to, when capital funds are inadequate, get loans from the banks to maintain normal production or to expand re-production. The relationship of creditors and debtors therefore also exists between banks and enterprises and this is the so-called socialist banking credit. Both commercial credit and banking credit are made on the condition of repayment under which the debtor is required to repay the loan to the creditor at an agreed time, or the creditor may take back the loan. This is the basic requirement for a healthy credit relationship. In credit relationships, the repayment of debts is an inflexible restrictive condition which cannot be bent at will. It will otherwise not be a healthy credit relationship.

It has to be pointed out that, although there exist credit relationships in our old economic system, credit relationships have not been common nor healthy. On the one hand, commercial credit between enterprises has long been limited. Banking credit too has only formed a very small part of the enterprises source of capital funds and this has greatly limited the scope of credit relationships. On the other hand, because of the common existence of loose budgetary controls, coupled with the unhealthy banking credit system, loans are always long overdue for various reasons or for no reason at all and sometimes have to be written off eventually. Following the more in-depth reform of our state's economic system, the various forms of credit relationships will be able to develop more commonly, making the credit system healthier progressively. This is an obvious trend.

In a healthy credit system, enterprises will have to pay interest for the [bank loans]. Loans will therefore only be meaningful when there are reasonable net profits after interest due is deducted from the gross profits. On this point, there are limits according to which enterprises can make use of bank loans. However, there are many factors which prompt the enterprises to expand the use of credit relationships. First, the advance in technology and the corresponding increase in the necessary funds will lead to the rise in the limit of minimum investment that is necessary for a fixed scale production capacity. This often prompts the

enterprise to apply for more loans for fear of insufficient funds. At the same time, in order to adjust to the new technology level and to obtain a better return, the enterprises would also like to increase investment as far as possible. Secondly, expanding the use of credit relationships will speed up the turn-over of funds of enterprises, which is imperative to the increase in enterprise economic efficiency and profits. Therefore, enterprises will, as far as conditions permit and as far as possible, expand credit relationships. Thirdly, the pressure of competition will also force the enterprises to expand the use of credit relationships. The existence of a credit system therefore provides development opportunities for every enterprise. Enterprises which can effectively make use of this opportunity will be able to compete in an advantageous position, even if they fall short in other aspects. It is therefore obvious that there is a general tendency for enterprise behavior to expand credit relationships with a view to strengthening economic ability and improving operation conditions under competitive conditions.

The above analysis explains the two consequences of establishing a healthy and common credit relationship under the new economic system: on the one hand, while the repayment terms of credit relationships are a form of strict budgetary control, there exists a need for rigid measures for their adjustment; on the other hand, there will surely be a plethora of ever expanding credit and debit relationships which will require the establishment of regulations and rules to manage and to avoid confusion in the economy. These two consequences are exactly what provide the practical foundation for the establishment of enterprise bankruptcy law.

III. The Uncertainty of Economic Prospects Directly Confirms the Possibility of Bankruptcy of Socialist Enterprises

Under the credit system, borrowing does not take place according to administrative orders. It takes place on a voluntary basis which has taken full consideration of the economic interests of the two parties concerned. Generally speaking, except for the interference of non-economic factors, both the creditor and the debtor will have to forecast the economic prospects of the borrowing. Only when it is estimated that the borrowed and lent funds will be repaid by a certain time limit, and there will be economic interests for both parties, will borrowing take place. It will not take place if one of the two parties fails to see a profitable forecast.

Forecasts of economic prospects also determine the amount of borrowed funds. The more optimistic the two parties of creditor and debtor are, the larger the credit amount will be. When encouraged by extremely optimistic forecasts, it is highly possible for an enterprise to borrow funds exceeding its own capital funds or the total value of its assets. It is not a surprise to see this happening in advanced credit economies.

If all credit activity takes place according to very accurate forecasts of the economic prospects, there will not be any problems in repaying the loans, large amounts of these loans notwithstanding. The question is

that there are limits in people's ability to forecast economic prospects accurately. These factors cause deviations in people's forecasts of the economic prospects; or there may be serious mistakes. In the socialist economy, people's forecast of economic prospects may be affected by the following uncertainties. The first factor is the uncertainty in the condition of market demands. While investing or borrowing loans, people are often required to make an estimate of the condition of market demands. Accurate estimates are as a matter of fact an impossibility in view of many very complicated factors which influence the changes in market demands. The second factor is the uncertainty in the condition of market supplies. There are always unexpected changes in the supply conditions of production elements which may cause confusion to the production operation. Forecast profits are therefore not forthcoming. The third factor is the uncertainty in society's standard of production technology. In the existing economy, scientific technology has been progressing rapidly and has often led to drastic changes to the production process and dramatic increase in the production rate. These changes are always unpredictable to the enterprises. When these changes take place, enterprises adopting traditional technology for production will not be able to obtain their forecast profits. The fourth factor is the uncertainty of the enterprise's production potential. Enterprises will have estimated the production potential of their own production elements while making investments. These estimates too, are always inaccurate because of the changes of the various conditions under which the production elements function. Forecast profits of these enterprises are therefore affected. The fifth factor is the uncertainty in non-economic factors. The enterprises' productive operation activities are inevitably influenced by the various political, social and cultural factors. The changes in these factors are sometimes also unpredictable to the enterprises. When the enterprises' production operations are affected by the changes of these unexpected non-economic factors, their forecast of profits will be affected. Because of the effects of the above uncertainties, forecasts on economic prospects are very likely to be inaccurate. Borrowing based on wrong forecasts will certainly result in the debts not being repaid according to the original repayment schedule. People may be able to raise the standard of forecasting and control the capacity of the production process through various means but there will be some enterprises, the actual profit of whose production operation activities is, however, very much lower than the forecast profits. If the enterprise, as a result of this, is indebted for an amount exceeding its capacity and is thus unable to repay the debt which is due, there will need to be a set of regulated economic rules, on the basis of which the debtor's properties will be tied up to protect the creditor's interest and maintain normal economic order to avoid social instability. If the resolution of these disputes has to be dependent on some very flexible administrative methods, credit relationships will become a form of funds-redistribution relationship. The situation will be back to square one and enterprises will become again the appendices of the administrative structure. This obviously does not match the requirement of our state's reform in the economic system at the moment.

A conclusion can be drawn from the above analyses: Following the development of a new socialist economic system which can fully make use of the market mechanism, there will be a demand for the establishment of socialist enterprise bankruptcy systems.

IV. A Consideration of Some Associated Problems

Based on the above analyses, I would like to raise a few points which are different from the more popular viewpoints.

First, the planning function of the socialist economy fails to eliminate the uncertainties in economic life and is therefore unable to eliminate the possibility for socialist enterprises going bankrupt. Some people hold that since the socialist economy is a planned commodity economy and all production activities of the enterprises are carried out under the state's macroeconomic control, the state may, through overall balancing of the macroeconomic plans, discover the disharmony between the setup of production, the product mix, and the district structure [di qu jie gou 0966 0575 4814 2845] and may decide on the enterprises' removal to other places, their switching over to other lines of products, their merger with others, suspension of operations, or closing down; the enterprises may also discover that they are in a disadvantageous position in competition through their microeconomic returns and request to close down, suspend production, merge with others, switch over to other lines of products, or remove themselves to another place. Furthermore, when there are indications that an enterprise is unable to repay the debt, the bank will stop the credit. This will prevent the enterprise from timely bankruptcy. There are therefore no grounds for the establishment of an enterprise bankruptcy system. The most arguable point in this viewpoint, I think, is not whether the methods of closure, stoppage, combination, switching and removal can be implemented smoothly and reasonably, nor whether these methods meet the requirements of the new socialist economic system, the characteristic of which is indirect control by the state. The most arguable point is that this viewpoint works on the assumption that the state, the enterprises and the banks are able to predict economic prospects and deny the existence of uncertainties in socialist economics. In reality, enterprise bankruptcies take place following the earlier predictions on the economic prospects, which are always optimistic. Otherwise, the operation activities of these enterprises would never have taken place. The enterprises will probably [word indistinct] bankrupt when the economic prospects become clearer. There are, of course, cases when an enterprise which is in a disadvantageous position in the competition, can implement measures to prevent bankruptcy, or turn a profit from the red ink. However, this does not suggest the elimination of the phenomenon of enterprise bankruptcy, although it does prove that the cases of enterprise bankruptcy can be reduced. In view of the uncertainties in the economic prospects, there will be some enterprises (cases will of course be few) which cannot escape the fate of bankruptcy.

Secondly, an enterprise bankruptcy law is the product of the development of credit relationships in the commodity economy. The existence and development of the socialist credit relationship has created an objective

demand for the establishment of the law of socialist enterprise bankruptcy. Therefore, in order to explain the absolute necessity for the establishment of an enterprise bankruptcy law, one has to use the analyses of credit relationships as the basis. However, articles discussing the question of socialist enterprise bankruptcies, regardless of which side they take, have often failed to pay particular attention to the analyses of the socialist credit relationships. This is an undeniable weak point. For instance, when arguing whether it is absolutely necessary to establish a socialist enterprise bankruptcy system, people often try to explain the causes for socialist enterprise bankruptcies with the objective function of value rules and the conflicts between individual working time and the working time necessary for society. This argument is correct to a certain extent but it remains at only the abstract level and fails to examine the reality and the direct causes for enterprise bankruptcies. In the absence of a prospering credit relationship, the excess in individual working time over the working time necessary for society will not result in the enterprise's expenditure exceeding income, nor will it result in debts exceeding income and will certainly not result in the situation of debts exceeding the capital funds. In the absence of healthy credit relationships, and for the fact that the debtor and the creditor may have certain non-credit relationships (e.g. administrative subordinate relationships), it will not be possible to use a bankruptcy law to handle the problems of debts even when the enterprise concerned is heavily indebted, or when its debts exceed its capital funds. The absolute necessity for establishing socialist enterprise bankruptcy law can only be explained on the grounds of credit relationships. Comrades who do not approve of the establishment of socialist enterprise bankruptcy law often choose to avoid discussion on credit relationships in their arguments. Some comrades even suggest that after the breaking up of the system of "eating from the same big pot" the production of socialist enterprises should mainly rely on their own capital funds while the banks should extend their credit according to the enterprises' ability to repay. There should therefore not be any enterprise bankruptcy problems under socialist conditions.

Obviously, this viewpoint, too, has overlooked the concrete analyses of socialist credit relationships and as a result would disapprove of the absolute necessity for establishing the socialist enterprise bankruptcy system.

Thirdly, establishing progressively the socialist enterprise bankruptcy law which suits our state's condition has become a must. However, whether or not the enterprise bankruptcy law can really function effectively depends also on the smoothing out of some other economic relationships, particularly the reform of the security credit system. There is one viewpoint which suggests that the establishment of the enterprise bankruptcy law will become a breakthrough point for reform of the economic system at this time and will be the foundation of reforms in other aspects. For instance, some comrades are of the view that the implementation of the enterprise bankruptcy law need not be based on the premise of cutting off completely all the unnecessary interventions of the enterprises by the

state. In order to cut off completely all the unnecessary intervention and separate government functions from enterprise operations, a bankruptcy system will have to be established first. If enterprises are allowed to declare bankruptcy, departments in charge and the local administrative authority will consciously and progressively reduce their administrative intervention in the enterprises in order not to share the responsibility for the bankruptcy. The enterprises will also be more conscious in resisting the unnecessary intervention which comes from superiors in order not to go bankrupt. This viewpoint is, I think, a bit too optimistic. As a matter of fact, under the old system, the excessive administrative interventions from the state to the enterprises have been caused and determined by the system itself. It is not a problem of people acting consciously or unconsciously, nor a problem of whether people resist or do not resist. In the absence of complete reforms in strategy management systems, price management systems, labor salary management systems and security credit management systems, the promulgation of the enterprise bankruptcy law will not produce any effects in eliminating excessive administrative intervention. This is a proven point in economic reforms in other socialist countries. For instance, in Hungary, since the commencement of reforms in economic systems in 1968, because of the limitations in other economic conditions, the bankruptcy system has not been practically implemented, despite that the enterprise bankruptcy law had been promulgated earlier. According to the observation of Hungarian Economist ke-er-nai [4430 1422 1143], at present, Hungary's economic system basically remains an indirect administratively adjusted system. Under this system, the state will have to support almost all bankrupt enterprises. When the enterprise concerned survives the bankruptcy crisis, it will not consider the question of repaying the debts but will continue to ask for money from the state. This is obviously contradictory to the requirement of the enterprise bankruptcy system. Therefore, the key point is the adjustment of the various economic systems and not the forced implementation of the enterprise bankruptcy law.

Certainly, acknowledging the difficulties of and the conditions for the implementation of the socialist enterprise bankruptcy law does not preclude a positive attitude towards it. Under the present circumstances, we should examine and design an enterprise bankruptcy law which suits our conditions, and experiment with relevant regulations and rules similar to the enterprise bankruptcy law in some departments and districts. This method can, on the one hand, simulate the enterprise bankruptcy law, exert pressure on the enterprises and urge improvements in their operational management in order to keep pace with reforms in other aspects. On the other hand, it can handle certain disputes in debts more flexibly, improve these regulations and rules through experiments and prepare for the smooth introduction of the enterprise bankruptcy law when the conditions are ripe.

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NATIONAL POLICY AND ISSUES

GUANGMING RIBAO ON REALIZING OWNERSHIP BY WHOLE PEOPLE

HK041035 Beijing GUANGMING RIBAO in Chinese 23 Aug 86 p 3

[Article by Zhu Liping [2621 4539 1627]: "A Form for Realizing Ownership by the Whole People"]

[Text] At the present stage, China's form of ownership by the whole people is realized by state ownership and state operations. I believe that ownership by the whole people should be realized through the collective ownership of "combines of free individuals."

It is widely known that socialist ownership by the whole people is formed by turning capitalist enterprises into state ownership through expropriation and redemption. Enterprises which are later invested in or built by the state are also in the form of ownership by the whole people. This is the actual content of socialist ownership by the whole people. Therefore, ownership by the whole people became a synonym for state ownership right from the start. As a specific form of public ownership, state ownership is not unalterable. In order to meet the requirements for developing a socialist commodity economy, it is completely necessary that we turn state ownership into collective ownership of "combines of free individuals." Such a practice will not change the nature of public ownership. On the contrary, since the basic difference between public ownership and private ownership is to turn hired labor into combined and voluntary labor, the realization of collective ownership of "combines of free individuals" reflects the nature of socialist combined and voluntary labor. It is also the best way of realizing the laborers' role as masters of their own affairs.

The right of ownership means different things in legal and economic contexts. In terms of law, the right of ownership refers to the nature of ownership of the means of production; that is, the legal content of ownership of the means of production stipulated and protected by the state. It is not related to actual ownership or allocation of the means of production and products. In terms of economics [word indistinct] right of ownership refers to the actual ownership of the means of production; that is, whoever takes part in the creation of the means of production and products is entitled to own and allocate the means of production and labor products.

In the final analysis, all enterprises' means of production and their products are collectively created by their laborers. Although direct state investment is involved, the means of production owned by enterprises has become the product of laborers' cumulative labor after some productive procedures. Therefore, economically speaking, all enterprises' means of production and products should undoubtedly be collectively owned by the laborers as a whole. Acting as a representative of the legal right of ownership and as a legal entity of the ownership of the means of production, the state achieves this through the economic means of collecting taxes. Therefore, it is reasonable that all laborers in a socialist enterprise enjoy the right of ownership of means of production as well as the right of operation. If, after expropriating the capitalists, we continue to carry out the state ownership system among enterprises, we shall violate a basic theory of economics, which would not conform to the actual conditions of a socialist economy. This will inevitably adversely affect the development of the socialist economy.

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ECONOMIC MANAGEMENT

LU DONG URGES BETTER ECONOMIC EFFICIENCY

OW301750 Beijing XINHUA in English 1450 GMT 30 Aug 86

[Text] Beijing, 30 Aug (XINHUA)--Senior State Council official Lu Dong today called on industrial enterprises to focus on raising economic results. Lu Dong is the minister in charge of the State Economic Commission.

He said at a meeting here that the speed of China's industrial production is turning normal this year, but there still remain a few problems such as the product structure falling behind market needs, high production cost, poor management and blockage in commodity circulation. The minister urged leading officials and people in industrial enterprises and financial departments to produce goods needed on the market to replace out-of-date products.

He asked every locality, department and enterprise to analyze market information and give priority in energy, raw materials and funds to the development of quality products with lower cost and better economic results. "Every enterprise must spend 30 percent of its efforts in developing new products and technology and extend cooperation with scientific research units in this aspect," Lu said.

Leading enterprise officials must pay close attention marketing their goods. "So long as we promote sales and guide consumers to use our products, the unsalable products can be sold," the minister noted. He urged enterprises to do a good job in making up deficits and increasing surpluses, and fully implement factory directors' responsibility as well as production responsibility to improve products' quality and reduce costs.

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CSO: 4020/434

ECONOMIC MANAGEMENT

STATE ENTERPRISE LOSSES UP 58.8 PERCENT

OW300830 Beijing XINHUA in English 0650 GMT 30 Aug 86

[Text] Beijing, 30 Aug (XINHUA)—The losses of unprofitable state-owned enterprises in China rose 58.8 percent during the first seven months this year over the same 1985 period, government economists said today.

At the same time, they said, the value of all state enterprises' industrial output grew at a five percent annual rate, in line with China's 7th five-year plan ending 1990.

They did not say how many or what percentage of state enterprises lost money during the period, nor did they specify the total output value.

Officials of the Chinese Ministry of Finance and the state Economic Commission told XINHUA that they alerted all state enterprises that "immediate actions are needed to prevent further economic losses."

They suggested cuts in wasteful enterprise spending and increased production of higher quality goods and oriented toward market demand.

In addition, they appealed to enterprise leaders to make bonuses of all workers including factory managers dependent on enterprise profits.

The officials also urged all state enterprises to cut their fourth-quarter spending by five-to-ten percent from 1985 levels in all areas except wages, social welfare, trade union activities, and machine repairs.

And they told enterprises with stockpiles of unsold products that consume a disproportionate share of China's scarce energy supplies to produce goods more suitable to market demand.

"If any of these factories fails to show improvement, the government will close it down," said one official.

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CSO: 4020/433

ECONOMIC MANAGEMENT

CHINA TO ADOPT INTERNATIONAL STANDARDS OVER 3 YEARS

Beijing JINGJI RIBAO in Chinese 2 Jun 86 p 1

[Article by correspondent Li Tiezheng [2621 6993 6927] "Our Country Will Have Adopted 5,800 International Standards Over 3 Years"]

[Text] From the National Working Conference on the Adoption by China of International Standards I have learned that the state has asked that by 1989 international standards be adopted for 5,800 important manufactured goods as an important strategic measure to correct the longstanding problem of low-quality manufactured goods and low economic benefits.

The conference relayed the spirit of the leading comrades of the State Council who hold that quality is primarily a question of standards and that China should adopt international standards and the advanced standards of foreign countries.

This reporter learned from the departments involved that only about 20 percent of China's principal manufactured goods use international standards or the advanced standards of foreign countries. The rate of adoption of new standards is relatively slow; each year only about 300 national standards are set which meet international standards. China's low standards make many enterprises organize their production around these low standards, resulting in products of inferior quality which become an important reason for their lack of competitiveness on the domestic and international markets.

The responsible comrade from the State Standardization Bureau at the conference declared that the state would make a series of reforms in its work on standards adopting the procedure of "Adopting immediately, testing by practice, and making additions and revisions" in order to simplify the certification process. Henceforth, international standards on fundamentals and on methods can be adopted directly; all standards on manufactured goods can be directly adopted from the advanced standards of foreign countries. The State Economic Commission will support this work with capital and foreign exchange. Standards for the quality and characteristics of manufactured goods which can meet standards at the advanced international level, the ordinary international level, and the domestic ordinary advanced level will be divided into the three grades of

superior goods, first-class goods, and accepted goods with a price difference between different grades of goods. These standards will be used to supervise and urge enterprises on to achieve the advanced international level so that the quality and performance of about 40 percent of China's manufactured goods will meet the standards of the advanced countries dating from the end of the 1970's or the beginning of the 1980's by 1990.

Deputy Director Zhu Rongji [2612 6954 1015] of the State Economic Commission pointed out to the conference that the key link in boosting economic benefits is the problem of quality. Much has been said about this problem over the years but it still has not been solved. From the third quarter of 1984 through the first half of 1985 the quality of manufactured goods seriously declined. Beginning in May, 1985 the quality inspections ordered by the State Economic Commission have arrested this decline but the problem still has not been solved fundamentally. To implement comprehensive management and solve the problem of quality, we must first solve the standards problem. If we do not have high standards there can be no high quality.

Deputy Director Yuan Baohua [5913 1405 5474] also spoke at the conference. He stressed that in regions where industrial growth is below the national average, even when emphasizing catching up, increases in production and speed should not be sought while neglecting the central importance of increasing economic benefits.

12369/12851
CSO: 4006/1095

ECONOMIC MANAGEMENT

COMMISSION SETS MEASURES ON CHECKING PROJECTS

OW291050 Beijing XINHUA Domestic Service in Chinese 1117 GMT 25 Aug 86

[Text] Beijing, 25 Aug (XINHUA)--The State Planning Commission recently worked out "specific measures to check on projects under construction," which will serve as a basis for implementing policy in all localities in checking fixed asset investment projects under construction this year.

The main contents of these specific measures are:

The projects under construction to be checked include capital construction and above-norm renovation and transformation projects of state-owned units. They include projects both listed and not listed in plans and both large and medium-sized and small projects. The standards for checking will be based on the statistics of projects published by the Statistical Bureau at the end of June 1986.

In checking projects, we must closely integrate control of the scope of this year's fixed asset investment projects with the plan to be drawn up for next year. According to the State Council's relevant regulations, construction of the following projects should all be suspended or postponed: projects for which there are no adequate funds or materials, projects whose construction cannot be justified, projects for which there is no adequate equipment, projects which yield poor investment results, projects whose techniques and technology are backward, and duplicate projects which are not actually needed. In dealing with them, we must adopt the following specific measures:

1. Construction of projects not listed in the 1986 plan should be suspended. Some projects which actually meet the requirements of the investment structure, yield good economic results, and for which funds, materials, and equipment are available must be reported for approval according to regulations. They must be included in the state plan or in plans of departments or localities as assigned by the state. These projects will be listed in plans as alternate projects. If construction is begun on these projects without approval, they will be dealt with as projects not listed in plans.

2. If the construction of an auxiliary project or an auxiliary part of a project cannot keep up with the construction of a related energy resource, communications, raw and other material, or other key project, we should first speed up the construction of the auxiliary project or the auxiliary part of a project, so that both can start production at the same time and yield maximum benefit. If the construction of an auxiliary project or an auxiliary part of a project cannot be speeded up, or if, even after it is speeded up, it still cannot keep pace with the principal project or affects the supply of energy or raw and other materials after the principal project starts production, or if the principal project fails to produce economic results because of poor communications and transport conditions, we should slow down the construction of the principal project. Other projects will also be dealt with in accordance with this principle if their construction and that of auxiliary projects cannot be synchronized.

3. A processing industrial project under construction should be suspended or postponed if there is a shortage of raw and other materials or of power supply, or if production of a plant of the same type in the same city or prefecture is affected by inadequate supply of raw and other materials or electric power because of it. The construction of a processing industrial project which has not yet started should be temporarily postponed.

4. Projects under construction that fit the following description should be suspended:

"Hodgepodge-type [pinpan 2178 4149] projects," which involve many investors who try to outwit each other but fail to come up with the necessary funds;

Projects with low budgets, or projects that exceed their budget because of price increases in materials and equipment. Projects that cannot start due to lack of funds, or projects that are unable to "absorb" price increases;

Projects using improper resources (including capital construction projects being carried out by using emergency funds, capital construction projects using funds raised by increasing commodity prices without prior approval, and capital construction projects using bank loans while regarding such loans as funds raised by the unit;

State capital construction projects being carried out by using bank loans-- projects not included in the state credit plan and the state capital construction plan;

Transportation projects not designed for the exploitation of energy resources carried out with construction funds retained locally for the development of energy resources and transportation;

Projects with an apparently insufficient supply of raw materials and equipment;

Projects that would pollute the environment with pollutants exceeding the level permitted by the state; and

Projects using equipment the state forbids to produce.

5. Construction projects designed to develop streets in a city or township should be suspended if they have not yet been started. Those that have already been started must be carried out on a smaller scale if possible or postponed.

6. Engineering projects designed to expand the highway network on a large scale should be suspended or postponed if they require requisitioning of large tracts of farmland or the dismantling of a large number of houses for developing these projects.

7. Various types of office buildings, hostels, high-class guest houses, including houses built under the name of "centers" or newly built under the pretext of "renovation," should be suspended if they have not yet been started. Those projects that have already been started should be dealt with on a case-by-case basis.

8. Various types of facilities for promoting tourism must be built according to the plan of the National Tourism Administration. All projects not included in the plan of the National Tourism Administration or lacking the approval of the Tourism Administration should be suspended. Those few projects that are really needed may be resumed only after they have been reported to the National Tourism Administration and its approval has been obtained.

The practice of checking on projects should be carried out by the unit under which the particular project is being carried out. The work of checking on projects will begin in late August and conclude at the end of October.

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CSO: 4006/1337

ECONOMIC MANAGEMENT

CARTOON VIEWS MANAGEMENT IN CHINA

Hong Kong WEN WEI PO in Chinese 1 Sep 86 p 7

[Cartoon]



裝電鈴
張科長搬進新居，要電工左
門下裝一個電鈴按鈕。
電工奇怪地問：「這叫來客怎麼按呢？」
張科長回答：「我的客人都是用腳踢門，
因為三家已經太滿禮物了。」
丁聰

INSTALLATION OF A DOORBELL BUTTON

Mr. Zhang, a section chief, moved into a new residence. He asked an electrician to install a doorbell button down near the floor.

Curious, the electrician asked: "How can a visitor ring the doorbell?"

Mr. Zhang answered: "All my visitors will use their feet to ring the doorbell because their hands are full of gifts."

Illustrated by Ding Cong

CSO: 4006/1329

ECONOMIC MANAGEMENT

XINHUA COMMENTATOR WRITES ON INDIVIDUAL ECONOMY

OW302123 Beijing XINHUA Domestic Service in Chinese 0214 GMT 29 Aug 86

[XINHUA Commentator's article: "To Develop the Individual Economy Is Not a Temporary Expedient"]

[Text] Beijing, 29 Aug (XINHUA)—This year, there is a tendency for the number of individual industrial and commercial premises to begin to decrease in some localities. This is an issue that merits our attention.

The policy implemented by our state right now is one of coexistence of many economic forms. The existence of individually operated industrial and commercial ventures is not a temporary expedient. At present, some comrades have entertained some erroneous ideas on developing the individual economy. Some people believe that there are enough individually operated ventures and that such ventures have battered the state and collective economy. Others believe: The development of the individual economy aims to help people seek employment. Now this problem has been almost solved. Therefore, there is no need for more individually operated premises. Under the influence of those erroneous ideas, some localities have stripped the industrial and commercial administrative departments of their past authority to issue licenses to individually operated ventures. They insist that any individually operated establishment must submit an application to run a business to be screened and approved by a principal responsible person of the government. One city even stipulates that any individually operated venture which seeks to operate in the city proper must be approved by the mayor's administrative meeting. As a result, only nine individually operated ventures were approved to open for business in that city during the first quarter of this year. However, more than 300 such ventures had applied. Some of the regulations formulated by a number of localities were actually difficult for the individually operated ventures to comply with. For example, one city stipulates that an individually operated restaurant must have a space of 60 square meters with five rooms including a locker room. Only then can such restaurant open itself for business. Other localities close individually operated premises at will under the pretext of keeping the various localities clean and tidy.

From this, we should realize that in order to continue to develop the individual economy, we must first of all solve the issue of awareness of the individual economy. Since the restoration of our efforts to promote the individual economy in China in 1978, individually operated industrial and commercial ventures have attained undeniable achievements in helping people seek employment, developing the tertiary industry, making things convenient for the masses, and readjusting the product mix. The taxes paid by individually operated ventures to the state during the past 5 years were close to 10 billion yuan. Individually operated premises are no longer dispensable in China's economic life.

In certain aspects, the development of the individual economy has actually become a challenge to the state and collectively owned enterprises. However, it is precisely this kind of challenge that makes these enterprises improve their management and further develop themselves in face of the competition.

The individual economy will continue to play an active role in helping people seek employment and strengthening tertiary industry. During the "Seventh 5-Year Plan," we are required to provide jobs for 170 million young people and handle the surplus manpower in China; individual economy is a broad avenue through which people will find their jobs. Right now, China's tertiary industry remains weak, but 80 percent of the individual operated ventures are working in the tertiary industry. They are even more indispensable in the development of the commodity economy in the countryside.

Right now, the development of the individual economy in China still fails to satisfy society's needs. We must realize, from a strategic point of view, the significant meaning of our need to develop the individual economy in further promoting the socialist economy. We must continue to vigorously support the development of the individual economy, strengthen our supervision and guidance, and help the individual economy achieve new and even greater progress.

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CSO: 4006/1337

ECONOMIC MANAGEMENT

BRIEFS

NORTHEAST SIGNS CONTRACTS—Harbin, 30 Aug (XINHUA)—Northeast China's Heilongjiang Province had concluded 1,078 contracts involving 320 million yuan with other parts of the country at the China National Economic Cooperation and Trade Seminar as of Friday. The seminar, which will close tomorrow, is sponsored by Heilongjiang and attended by 5,200 participants including provincial governors, regional chairmen and mayors of 117 cities. It aims at promoting inter-regional economic cooperation and mutual prosperity. In the first five days of the seminar, Guangdong Province in south China alone signed 127 contracts with Heilongjiang for exploring its local resources. According to the contracts, Guangdong will ship high-grade beef cattle from Heilongjiang to Hong Kong and Macao and use its flax as raw material for the southern province's textile industry. In return, Guangdong will provide Heilongjiang with noted-brand products and help it upgrade its electric appliances. Meanwhile, Fujian Province on east China coast has signed 12 agreements with Heilongjiang on natural resource exploration and commodity export and import. [Text] [Beijing XINHUA in English 1430 GMT 30 Aug 86 OW] /9738

CHANGSHA INSURANCE COLLEGE OPENS—Changsha, 8 Sep (XINHUA)—China's first college of insurance welcomed its first class of 200 students today. The Chinese College for Insurance Managers in Changsha grew out of a Hunan Province part-time study school for insurance workers, a college official said. According to the official, all of the first-year students have worked at least five years in the insurance business and have passed the national college entrance examination. "Everyone will major in one of three subjects—insurance, management or computers," he said. [Text] [Beijing XINHUA in English 1342 GMT 8 Sep 86 OW] /9738

CSO: 4020/434

FINANCE AND BANKING

REVENUE SHARING BETWEEN CENTRAL, LOCAL GOVERNMENTS

Beijing CAIZHENG [FINANCE] in Chinese No 4, 8 Apr 86 pp 10-11

[Article by Qian Si [6929 0934]: "The 1986 Classification of Central and Local Budget Revenues"]

[Text] Beginning 1985, China's central and local finances have implemented the financial management system of "classifying tax categories, ratifying revenues and expenditures and assigning responsibility to different levels." However, considering the fact that there have been quite a few changing factors in the reform of economic system in the past 2 years and to make it easier to handle the distribution relations between central and local governments, the State Council has decided to continue the sharing of total budget revenues between central and local governments, as an interim measure. This measure stipulates that except for fixed central revenues which will not be shared by local governments, fixed local revenues and the common revenues of central and local governments will be subjected to the sharing of total revenues between central and local governments. The 1986 classification of central and local budget revenues basically encompasses the following three situations:

1. Classification according to the affiliation of state-run enterprises. The income taxes, regulatory taxes, profit deliveries to the state and subsidies for planned deficits of state-run enterprises under the administration of the central government are in the category of central budget revenues; those of state-run enterprises under the administration of local governments are in the category of local budget revenues subjected to the sharing of total revenues.

"The category of other revenues" generally is also classified as central or local budget revenues according to the affiliation of the paying unit.

2. Classification according to tax categories. 1) Customs duties, import product taxes, value-added taxes, and industrial and commercial consolidated taxes which are levied by customs, taxes concerning foreign nationals such as the income taxes of off-shore oil enterprises, special categories of taxes such as special fuel taxes, and business taxes on railways and banks' headquarters are classified as central budget revenues. 2) State-designated special-purpose taxes such as city maintenance and construction taxes (the part directly delivered to local governments) and the bonus taxes of

collective enterprises are classified as fixed local revenues not subjected to the sharing of total revenues between central and local governments. 3) The product, value-added, and business taxes of the four central departments of petroleum, electric power, petrochemical industry, and nonferrous metals are shared by the central and local governments according to a fixed ratio--70 percent as central budget revenues and 30 percent as local budget revenues. The local share of 30 percent is then subjected to the sharing of total revenues between central and local governments. 4) All industrial and commercial taxes and agricultural taxes not included in the above three categories fall into the category of local budget revenues subjected to the sharing of total revenues between central and local governments.

3. Classification according to the functions of the central and local governments. Receipts from construction funds collected for key state energy and communications projects and receipts from state treasury bonds are in the category of budgetary funds under centralized state allocations and are classified as central budget revenues. Special revenues at the disposal of local governments such as receipts from sewage fees, city water resource fees, and harbors built to support harbors are all classified as fixed local budget revenues not subjected to the sharing of total revenues between central and local governments. According to the 1986 breakdown of the state budget revenues, the detailed classification of the 1986 central and local budget revenues is made into the following table for concerned comrades to use as a reference in work and study.

Table on 1986 Classification of Central and Local Budget Revenues

Breakdown of budget revenues (items)	The classification of budget revenues		
	Central budget revenues	Shared revenues	Fixed local budget revenues
1. Industrial and commercial taxes			
A. Product, value-added and business taxes:			
"The three taxes" on enterprises under the four central departments	70%	30%	
Product taxes levied by customs and value-added taxes	100%		
Railway business taxes	100%		
Banks' (insurance companies') business taxes			
headquarters (parent companies)	100%		
branch offices (subsidiaries) & under "the three taxes" on general units (or individuals)		100%	
		100%	
B. Industrial and commercial consolidated taxes			
The portion levied by customs	100%		

The portion paid by off-shore oil enterprises	100%		
The portion paid by ordinary enterprises		100%	
C. Special regulatory taxes	100%		
D. Income taxes on collective enterprises, urban and rural individual industrial and commercial households, and individuals		100%	
E. Income taxes on joint ventures and foreign enterprises			
The portion paid by off-shore oil enterprises	100%		
The portion paid by other enterprises		100%	
F. City maintenance and construction taxes			
The portion paid directly to local governments			100%
The portion paid to the central government	100%		
G. Other industrial and commercial taxes (See note 1)		100%	
H. Resource taxes		100%	
I. Bonus tax (wage regulation taxes)			
The portion paid by state-run enterprises and organs		100%	
The portion paid by collective enterprises			100%
J. Construction tax		100%	
K. Special fuel tax	100%		
L. Salt tax		100%	
2. Custom duties	100%		
3. Agricultural and animal husbandry taxes		100%	
4. Income taxes on state-run enterprises			
Central enterprises	100%		
Local enterprises		100%	
5. Regulatory taxes on state-run enterprises			
Central enterprises	100%		
Local enterprises		100%	
6. Profit delivery by state-run enterprises			
Central enterprises	100%		
Local enterprises		100%	
7. Subsidies on the planned deficits			

of state-run enterprises		
Central enterprises	100%	
Local enterprises		100%
8. Receipts from construction funds for key state energy and communications projects	100%	
9. Receipts from debts (See note 2)		
10. Revenues from special sources		
Receipts from switching fuel from oil to coal	100%	
Receipts from sewage and city water resource fees and from building harbors to support harbors		100%
11. Other revenues		
Receipts from customs confiscation	50%	50%
Receipts from payments on capital construction loans		
Central units	100%	
Local units		100%
Receipts from payments on loans to foreign countries	100%	

Footnotes:

1. Other industrial and commercial taxes include vehicle and boat license taxes, urban property taxes, slaughter taxes, livestock sales taxes and market sales taxes.

2. The classification of budget receipts from debts is omitted. For details, see explanations on the 1986 breakdown of state budget revenues and expenditures.

3. The revenue classifications listed in this table are general rules. Special individual rules will be prescribed in relevant documents. This table is based on the situation of classification up to February.

12302

CSO: 4006/1026

FINANCE AND BANKING

REFORM OF RMB EXCHANGE RATE POLICY

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 5, 4 May 86 pp 53-55

[Article by Wu Nianlu [0702 1819 7627]: "Reform of the RMB Exchange Rate and Formulation of Exchange Rate Policy"]

[Text] I. How Should the RMB Exchange Rate Be Determined

Within the last couple of years, most of our economic theorists have, while discussing the RMB exchange rate, expressed the opinion that it is too high, that it is not conducive to the earning of foreign exchange from exports and the utilization of foreign capital and that it should therefore be considerably devalued. The chief argument of those comrades holding this view is that the cost of earning foreign exchange from our export commodities is too high, as is the black market rate for foreign currencies in China and that the increase in commodity prices domestically has reduced the purchasing power of the RMB in recent years.

Those comrades who believe that the RMB is undervalued have not, however, abandoned their point of view. They point out that despite the rapid increase in commodity prices domestically during recent years, the average monthly per capita consumption of 60 RMB would be sufficient to meet living costs in China, while people in the United States with an average monthly income of \$210 (roughly 672 RMB) would be living below the poverty line. For this reason, they claim, the value of each unit of RMB is higher than that of the American dollar. Some years ago, the Bank of China and the General Administration of Exchange Control conducted a survey into the prices of over 100 commodities and the cost of services in several large cities in the world and in Beijing to make a comparison of the relative values of the currencies according to the weighted average method and came to the conclusion that 0.8 RMB was equivalent in value to \$1. While the purchasing power of the RMB may have declined in recent years, it has not dropped to the level of 3.20 RMB to the dollar.

As we know, the exchange rate, reflects the value of a nation's currency in foreign countries. In reality it is a reflection of the difference between commodity price standards at home and abroad. The basis for coming up with an exchange rate is a comparison of commodity prices between the two countries in question. Ours being a socialist nation with a planned commodity economy, we have adopted a different pricing system so that our commodity prices are not

tied to those in the international market. However, those comrades who believe that the RMB is undervalued have failed to see that many expenditures, such as rent for housing and certain daily necessities, are subsidized by the state. For this reason, each unit of the RMB consists of a certain amount of state subsidy. Furthermore, our nation, with its low wages and low rate of consumption, is different from the western nations with their high wages and high rate of consumption. Thus, the pegging of the RMB at too high a rate would not serve to promote exports and attract foreign capital. More and more comrades have come to accept this point of view.

Those comrades who believe that the RMB is pegged at too high a rate would, however, be taking a one-sided approach if they were to favor a drastic devaluation of the RMB just for the sake of boosting exports. The reason is that domestic commodity prices are reflected not only in the prices of export commodities, but also in noncommercial operations and labor services. It goes without saying that, in view of the low rate of labor productivity and the low standard of technical management in our nation, it is to our advantage to devalue the RMB to a certain extent. However, we must not overboard in what we do, but seek to reflect the true value of the RMB in a scientific and reasonable manner.

The difference between our pricing system and that in foreign countries has to a certain extent placed additional obstacles in our international trade operations. To remove these obstacles, we must either reform our pricing system to bring it in line with prices in the international market and adopt the free exchange system, or use such means as the foreign exchange rate and financial subsidies to resolve the problem. I believe use should be made of the foreign exchange rate and financial measures in dealing with the problem, because it is only by using financial means, credit loans, and taxes that we can develop the exchange rate as a lever in our foreign economic operations.

II. Difference in Commodity Prices in China and in Foreign Countries as Reflected Specifically in International Trade

From the macroeconomic point of view, the gap between domestic commodity prices and commodity prices in the international market is as a rule reflected in the parity of foreign exchange of import and export commodities, that is, in the disparity between the average cost of export commodities in earning foreign exchange and the average parity (cost) of import commodities in terms of foreign exchange earnings. For instance, if the average cost of earning \$1 through the sale of export commodities is 3 RMB, and if an import commodity costing \$1 is sold in the domestic market at only 2.5 RMB, there is a disparity of 0.5 RMB between the two. It is this disparity that results in an overall deficit in our international trade. If both imports and exports amount to \$20 billion each, then the total deficit would amount to $0.5 \text{ RMB} \times 20 \text{ billion} = 10 \text{ billion RMB}$. That is to say, in order to earn \$20 billion for our exports, it is necessary to export commodities valued at $3 \text{ RMB} \times 20 \text{ billion} = 60 \text{ billion RMB}$ and to sell import commodities valued at \$20 billion domestically for $2.5 \text{ RMB} \times 20 \text{ billion} = 50 \text{ billion RMB}$, so that there is a difference of 10 billion RMB between the two. That figure is, in short, the amount of subsidy paid by the state. So long as this

gap exists, a subsidy will have to be paid. It is obvious, however, that the figures cited above have been brought into being by many factors for which no comparison can be made. For instance, the structure and the amount of import and export commodities vary from year to year. Nevertheless, these figures are of considerable value for purposes of reference. If we are to engage in international trade, we must bridge this gap to achieve a balance in RMB and foreign exchange derived from import and export commodities. Thus, we have no choice but to adopt the practice of paying subsidies to make good our financial losses.

III. Relationship Between the RMB Exchange Rate and Foreign Trade Subsidies

Insofar as countries practicing planned economy are concerned, the rate of foreign exchange, providing there is a balance between import and export trade, has no effect on the total amount of subsidies paid for import and export commodities. The rate of foreign exchange merely shifts profits and losses from one party to another.

Let us assume that both imports and exports amount to \$20 billion each, that the average cost of currency exchange for exports is 3 Yuan to the dollar and that the exchange rate for imports is 2.5 Yuan to the dollar.

1. When the exchange rate is 3.2 RMB=\$1, the profit from exports is $(3.2 \text{ RMB} - 3 \text{ RMB}) \times 20 \text{ billion} = 4 \text{ billion RMB}$ and the loss from imports is $(3.2 \text{ RMB} - 2.5 \text{ RMB}) \times 20 \text{ billion} = 14 \text{ billion RMB}$. After balancing the two, the total amount of subsidy still comes to 10 billion RMB (14 billion RMB - 4 billion RMB).
2. When the exchange rate is 2 RMB=\$1, the loss from exports is $(3 \text{ RMB} - 2 \text{ RMB}) \times 20 \text{ billion} = 20 \text{ billion RMB}$ and the profit from imports is $(2.5 \text{ RMB} - 2 \text{ RMB}) \times 20 \text{ billion} = 10 \text{ billion RMB}$. After balancing the two, the total amount of subsidy still comes to 10 billion RMB (20 billion RMB - 10 billion RMB).

The two examples cited above go to show that when there is a balance between imports and exports, changes in the exchange rate have no effect on the total amount of subsidies. It is only when there is an imbalance that the total amount of subsidies is affected. If exports exceed imports and if the exchange rate is close to or in excess of the average cost of earning foreign exchange through exports, then the amount of subsidy would be smaller than that when there is a balance between imports and exports. If imports exceed exports and if the rate of exchange is close to or in excess of the average exchange rate, then the total amount of subsidies would be smaller than that when there is a balance between imports and exports.

IV. How To Reduce the Gap Between Prices Prevailing Domestically and Abroad

The different international pricing structure, the low rate of labor productivity, and the low standard of technical management in China are the basic reasons contributing to the gap existing between prices at home and abroad. Efforts should be made to bridge the gap. At present, because of the standard

of operations management, the taxation system, the pricing and commodities structures, and the economic system, the average exchange rate for our import and export commodities does not reflect their true values. An effort must therefore be made to reduce the cost of earning foreign exchange from our exports and to improve the rate of exchange for our imports.

One economic factor affecting the exchange rate for our exports is that of the internal link involving purchasing, storage, transportation, and safekeeping of our commodities. The other is the external link involving our export products. We must strengthen our economic accounting, reduce the cost domestically, take a firm grasp of the quotations and information in the international market, avoid taking risks with the exchange rate, make sales at a good price, take in foreign exchange in good times, and reduce the cost of earning foreign exchange. It goes without saying that the cost of earning foreign exchange involves problems with export enterprises, export bases, tax revenues, credit, prices and wages, as well as conflicts between technology and trade, finance and trade, and banking and trade. We must seek to resolve these problems by reforming the economic system, especially that involving foreign trade.

How should we go about improving the exchange rate for import commodities? That can be done by improving the exchange rate so that we can use one dollar to import a greater amount of high quality commodities and the same amount of foreign exchange to purchase high-quality commodities at low cost. Due to certain defects in our planning for imports in the past, we had been, in our eagerness to fulfill the quota, deceived and taken in because of our failure to look for the right opportunities to select our import commodities, and to give consideration to when the exchange rate was favorable. Furthermore, the domestic prices for many import commodities have remained unchanged for over 30 years with the result that losses have been incurred in our imports and the amount of subsidies has grown larger and larger. For this reason, prices must be properly readjusted. The readjustment of prices must, however, be made with care because once the prices of imported raw materials and the means of production are allowed to go up and no subsidies are paid, a chain reaction in the prices of various commodities will be unleashed and the level of commodity prices throughout the nation will be affected.

V. Formulation of RMB Exchange Policy

At present, the reform of the RMB exchange system entails the solution of two key problems. One calls for the study and determination of the exchange rate, while the other calls for determining the form of readjustment on a regular basis.

In determining the exchange rate, we must make full use of foreign resources (manpower resources, financial resources, and material resources) in view of the low rate of labor productivity and the low scientific, technological, and management standards prevailing in our country. We must take into account the need to promote exports, to derive incomes from sources other than foreign

trade and to utilize foreign capital while giving consideration at the same time to the need to import commodities from abroad. What, then, is the principle for determining the exchange rate? At what level should the exchange rate be set? Theoretically, the exchange rate between the RMB and foreign currencies should be based on the comparative values of the currencies in the international market, that is, the comparative amount of labor required in society as reflected by our commodities and labor services and those of foreign countries in the international market. The rate must truly reflect prices changes and the level of commodity prices in the domestic markets, that is, the level of purchasing power prevailing in the various countries. It is my opinion that the level of commodity prices should be computed by taking into consideration trade and nontrade operations and labor services. For this reason, the concerned departments should make calculations taking into account the various foreign exchange incomes and expenditures, the relevant commodity prices and labor costs prevailing at home and abroad and different weighted figures should be used to arrive at, insofar as possible, a realistic exchange rate. After the method for computing the exchange rate has been decided upon, the data of various changes in commodity prices in a number of large cities in China and foreign countries such as Beijing, Shanghai, Tianjin, Guangzhou, Xi'an, Wuhan, New York, Tokyo, London, Hong Kong and Paris should be fed into a computer at regular intervals to arrive at two curves. One curve indicates the domestic purchasing power of the RMB. When prices go up domestically, the table shows the value of the RMB going down. Another curve shows the overall purchasing power of foreign currencies. When prices go up in foreign countries, the table shows the value of foreign currencies going down. A comparison should then be made at regular intervals of changes in the two curves to arrive at the proper exchange rate of the RMB. That is the basic premise on which to determine the exchange rate.

The method of readjustment of the RMB exchange rate at regular intervals is not the same as that used for the readjustment of the exchange rate. If we are to readjust the exchange rate by using the method of readjusting the exchange rate at regular intervals, we are liable to create certain problems, because that would lead certain units to purchase foreign currency ahead of time and delay their application for such purchases. The false conclusion may even be drawn that the exchange rate of the RMB can only be readjusted downward and not upward. At the same time, we cannot peg the RMB to the currency of any one country. In determining the weighted ratio on a package basis, we should seek to increase the weighted ratio of the currencies of the countries with which we have close trade relations. Furthermore, the weighted ratio of the various countries should remain unchanged over an extended period of time. It should be readjusted on the basis of the situation pertaining to the development of trade between the two parties concerned, the status of the various foreign currencies in the international financial market, and our foreign political and economic policies. It is my opinion that readjustments should be made according to the following general principle: After the exchange rate has been determined, (readjustments in the exchange rate should be made with caution and on a scientific and reasonable basis; readjustments upward or downward should not be made too frequently; it is best to make readjustments once and for all), changes in the exchange rate between

the RMB and the major currencies in the Western nations should be kept at a medium or slightly upward rate. That would contribute to the stability and prestige of the RMB among the foreign currencies, reduce the risk of precipitous drops in the exchange rate as a result of unexpected international developments and facilitate the assessment of the prices of import and export commodities.

(Liu Ping [0491 1627], editor of this column)

9621/12851
CSO: 4006/1083

FINANCE AND BANKING

PEOPLE'S BANK BRANCH CHIEFS URGE BETTER FUND MANAGEMENT

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 6, 4 Jun 86 pp 8, 9

[Article: "Specific Demands Are Made in the Symposium of Nationwide Branch Chiefs of the People's Bank of China"]

[Text] From 21 to 24 April 1986, the People's Bank of China convened in Beijing a symposium of its branch chiefs from each province, autonomous region, and centrally administered municipality, as well as from its branches in planned cities and Shenzhen. The conference stressed analysis of the current economic and financial situation and investigated steps to relieve the shortage of circulating funds. Liu Hongru [0491 7703 0320] and Tong Zengyin [4547 6362 6892] vice presidents of the People's Bank of China attended the conference and Vice President Liu gave a speech at its plenary.

The conference pointed out the strong national economic and financial situation in the first quarter of 1986, the rise in industrial production in the first quarter, the increase in bank withdrawal of currency from circulation, the improvement in market supply conditions, and greater stability in commodity prices. Because each level of government and banks has adopted a series of measures, the shortage of circulating funds has been relieved. However, in the last half of 1986, there still will be outstanding contradictions in the supply and demand of circulating funds; each bank at all times must analyze the fund situation, forecast changes in economic conditions, further improve the management of funds, and support economic development.

The feeling at the conference was that the policy measures determined at the February 1986 nationwide meeting of branch chiefs must continue to be implemented. As a result of the discussion in this symposium of branch chiefs, the following provisions were added:

I. Increase Deposits, Expand the Source of Funds

A. While staying within the scope of centralized interest rates stipulated by the People's Bank, the Industrial Bank, Agricultural Bank, and the Bank of China must launch competitive deposit businesses through improved service. With regard to specific methods, they should conduct tests based on different circumstances and do successful management work. The Construction Bank must actively handle specialized accounts for commercial products and entities.

B. According to the stipulations of "The Provisional Administrative Regulations of the People's Bank of China," in large and medium-size cities we should vigorously develop urban credit cooperatives with independent accounting, recruit deposits from urban collective enterprises and from individual economic accounts, and conduct credit business for them.

C. We should vigorously promote postal savings business, turn over postal savings deposits recruited in each area to be arranged by the People's Bank branch in that province, autonomous region, or centrally administered municipality (including branches in planned cities) and use postal savings deposits as circulating fund loans.

D. We must continue to issue financial bonds. We must continue to issue those bonds which were designated to be issued last year but were not issued, and increase issuances this year by 2 billion yuan.

E. We should manage savings account business with higher interest rates, large denominations, and fixed terms (specific methods are specified elsewhere).

II. Further Tap the Financial Potential of Enterprises

Under the leadership of its district government and with the close coordination of relevant departments, each bank must comprehensively tackle the problem of unused circulating funds; finance departments and enterprises must implement measures to replenish their own circulating funds and gradually achieve the stipulated scope of the enterprises' own circulating funds. Relevant departments and enterprises must be urged to complete the targets of tapping their financial potential and improving their economic results, thus fulfilling one condition for loans, and must be urged to help to manage actively the overstocking of goods and materials, reduce funds used for products and finished products, recall irrational loans, and raise the useful results of credit funds.

III. Further Implement the Credit Policy of "Differentiated Treatment"

A. We should give priority support to the production and purchase of agricultural produce and sideline products, marketable products, and exports which earn foreign exchange.

B. We should support the production of marketable civilian products which defense industry enterprises have begun to produce.

C. We should implement regulations on who arranges fixed-asset investments and who arranges circulating funds. Within the stipulated limits of making up for deficiencies and in order to support newly established and expanding enterprises going into production and becoming effective as quickly as possible, specialized loans can be extended to those newly established or expanding enterprises which cannot meet the requirement for 30 percent of their own circulating funds. The source of funds for specialized loans is from money raised by specialized banks' issuance of financial bonds. The People's Bank

will assist specialized banks in paying close attention to the job of carrying out the issuance of financial bonds and to succeed in regulating the advance issue of financial bonds as the source of funds for specialized loans.

D. Banks should not extend loans to enterprises with second-rate, high-priced, or unmarketable products; which lack economic results; where the sources of their losses are not being made up or have not yet been made up; and which continue to misappropriate circulating funds for fixed-asset investments.

E. Fixed-asset loans must be strictly controlled according to plans.

IV. Vigorously Assist Enterprises in Clearing Up Their Defaulted Loans

A. We must line up defaulted loans of enterprises and pay close attention to clearing them up; first those located within cities and provinces, then those outside of the provinces; first those within the system, then those outside the system. Each head office of the specialized banks and all individual branches must strengthen this element of their work.

B. Banks must differentiate between circumstances and give appropriate loan assistance to clear up those defaulted loans for marketable products and for enterprises with good economic results and (good cause for tight finances) an inability to pay off loans. Loans will not be extended to clear up the following cases: 1) investments which were inadequate and so resulted in defaults; (2) losses which are not remedied and bring about defaults; 3) defaults from business disputes over product quality problems; 4) selling goods on credit, selling goods on commission, marketing through the mail, and other commercial credit which is beyond the scope of loan defaults.

C. Within the Commercial Bank's 10-city system, banks must pay close attention to the business problem of handling commercial receipts and accepting discounts. The municipal and provincial branches of the People's Bank must issue valid receipts and rediscount loans.

D. We must strictly enforce discipline in settling accounts. We must launch a deep investigation into the records of account settlement; if an enterprise has refused to repay a loan without an appropriate reason or has casually agreed to repay a loan, banks with circulating funds will, as punishment, not grant a loan to repay [the first loan] and should strictly enforce discipline in settling accounts.

V. Renew Fixed (dingjin) Loans for the Advance Purchase of Agricultural Produce and Sideline Products

Among agricultural loans, a line of funds must be arranged to support grain production in counties where grain production is being shifted in impoverished areas. The head branch of the People's Bank will settle the funding for that part of the sum which carries over into the next year. Fixed loans for advanced purchases must be linked with contract signings for the purchase and

sale of grain, and the supply of fertilizer, agricultural chemicals, etc., and must be checked and ratified by the commercial contract office of the People's Bank and Agricultural Bank branches.

VI. Strengthen the Central Bank's Financial Blending

Among the temporary loans extended last year, those loans resulting from increasing foreign trade reserves, from selling cotton on credit, and which support the restoration of production in disaster areas must be changed to loans for everyday use.

The source of funding for the 5 billion yuan extended this year in temporary loans is from specialized banks' accounts in the People's Bank and is allocated according to fixed ratios: if an account increases substantially, the 5 billion yuan can be exceeded and can arouse the enthusiasm of each region for saving more and loaning more.

The branches of the People's Bank from each province, autonomous region, and centrally administered municipality, on the basis of realistic circumstances, have the authority to give the specialized banks' loan authority to secondary branches.

The Central bank in each region must promptly research and forecast their region's economic development trends, analyze funding activities every month, correct calculations of the demand for credit funding, control the bank's moderate degree of elasticity, and control the overall scope of credit.

Each level of the People's Bank must urge its counterpart in the specialized bank to be first within its own system in carrying out financial blending; and especially when there are difficulties, the People's Bank again makes appropriate adjustments.

Each level of the People's Bank must supervise, urge, and help each specialized bank promptly to settle accounts for missing collected funds but does not have to extend loans for that part of the missing collected funds from the enterprises. We must examine more closely those missing collected funds which are not settled promptly and circulate a bulletin, assess an interest penalty of 0.03 to 0.06 percent, and, in serious circumstances, investigate the responsibility of management personnel.

VII. Vigorously Support Horizontal Economic Unity

The head office has issued a notice regarding its support for horizontal economic unity. Each branch must vigorously implement and carry out the stipulations of the Central Bank's notice.

VIII. Strengthen the Unified Management of Foreign Exchange

Putting foreign funds to use is an important source of funds, but their management must be strengthened, their useful results increased, and national

prestige upheld. Recently the State Council decided to have a national foreign exchange management office unify the management of foreign debt. A comparatively important task of the foreign exchange management branch office's management of foreign debt is a need to establish a mechanism for managing foreign debt, replenishing personnel, strengthening work, promptly mastering foreign debt situations, and regularly reporting to relevant leading departments.

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FINANCE AND BANKING

POOREST AREAS TO RECEIVE MORE DISCOUNTED LOANS

OW061611 Beijing XINHUA in English 1421 GMT 6 Sep 86

[Text] Beijing, 6 Sep (XINHUA)—China will more than double planned discounted loans to its poorest areas this year as part of a new five billion yuan (U.S.\$1.35 billion) aid package announced today.

China's highest governing body has approved loans of one billion yuan (U.S.\$270 million) a year for five years to the country's poorest 200 counties, about one-tenth of the nation's.

Previously, according to the 1986 state budget, the government had planned to loan 800 million yuan (U.S.\$216 million) this year to the country's poorest areas to develop enterprises that will in turn produce new jobs.

The loans' interest rates were not disclosed.

Unlike earlier government loans, these will require county officials to spend part of their proceeds training government officials in administering the loans and on informing local specialists about recent technological advances and effective ways to make people aware of them.

Aside from these requirements, according to the State Council decision, county officials will be free to decide what projects to support with the loans. For the most part, areas slated for the loans are either border regions, those primarily inhabited by ethnic minorities or remote mountain locales.

The Chinese Government began earmarking budget funds for the development of these areas in 1980, providing discounted loans of 500 million yuan (U.S.\$135 million) a year between 1980 and 1983, and 600 million yuan in 1984 and 1985.

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CSO: 4020/434

CONSTRUCTION

NATIONAL URBAN, RURAL CONSTRUCTION ARCHIVES WORK CONFERENCE

SK080425 Hohhot Nei Monggol Regional Service in Mandarin 2200 GMT 7 Sep 86

[Text] The first national urban and rural construction archives work conference was held in Hohhot from 1 to 4 September. Attending the conference were more than 200 people, including comrades of the urban and rural construction departments in charge of urban construction archives work from various provinces, municipalities, autonomous regions, and some large and medium-sized cities, and leading comrades of the State Archives Bureau and the provincial, municipal, and autonomous regional archives bureaus.

Lian Zhong, vice minister of the Urban and Rural Construction and Environmental Protection, attended and addressed the conference. He said: Urban and rural construction archives are the authentic records of urban and rural development and construction, the indispensable basis for planning, building, and managing modern cities, and the important source of information for developing and building the urban and rural areas. However, judging from the situation in most cities, the foundations of their urban construction archives undertakings are fairly poor because they are newly-developed undertakings.

Comrade Lian Zhong said: At present, China is facing an inevitable trend in which the standards of cities are being improved and new cities are emerging unceasingly, thus setting forth new and greater demands on archives work. This national urban and rural construction archives work conference undertakes an important mission of carrying forward the urban and rural construction archives work and forging ahead into the future.

During the conference, the participating comrades conscientiously studied the important documents and directives of the party and the state concerning the urban and rural construction archives work, summed up the work experiences of the past 20 years and more, and discussed and reviewed the relevant stipulations and the Seventh 5-Year Plan for the urban and rural construction archives work, and studied the problems which require solutions in the course of the work.

/9604

CSO: 4006/1336

FOREIGN TRADE AND INVESTMENT

HONG KONG'S ROLE IN CHINA'S ECONOMIC DEVELOPMENT

Guangzhou GANG AO JINGJI [HONG KONG AND MACAO ECONOMIC DIGEST] in Chinese
No 4, 20 Apr 86 pp 2-4

[Speech delivered by Piers Jacobs, finance minister designate of Hong Kong, at the Forum on Investment Issues which was jointly sponsored by the Chinese Accounting Society and the Hong Kong Accountants' Association in Guangzhou from 27 February to 2 March 1986]

[Text] Mr. chairman, his excellency the governor, ladies and gentlemen:

1. I feel very honored to be invited to speak at the forum jointly sponsored by the Chinese Accounting Society and the Hong Kong Accountants' Association. Today, I want to talk about Hong Kong's role in China's economic development which is a very timely subject. In the past few years, the relations between China and Hong Kong have increased day by day. Hong Kong's infrastructure and service industry are well developed and will be of great help to China's modernization plan. I will gradually come to the subject, but first I will talk a little about Hong Kong's economic relations with China in the past few years and then I will concentrate on discussing the fields in which I think Hong Kong can make contributions to China's economic development and modernization plan or continue to play a promoter's role.

2. In the late 1940's, Hong Kong was mainly a transit port of China. At the time, it had very few manufacturing industries. To southern China, especially the area around the Zhu Jiang Delta, Hong Kong was a major import and export goods collecting and distributing center for China. In the 1950's, the form of trade between China and Hong Kong began to change with entrepot trade decreasing and goods imported from China for sale increasing while Hong Kong itself switched to developing manufacturing industries and began to import large amounts of raw materials, semi-finished goods and machinery.

3. Since the early 1950's, Hong Kong has become a main export market for China. Exports to Hong Kong brought to China huge amounts of foreign exchange earnings while Hong Kong received abundant supplies of fair-priced necessities such as livestock, vegetables and drinking water. Therefore, before China implemented the open-door policy in 1979, Hong Kong's economic relations with

China mainly stemmed from two areas: The exports of Chinese goods to Hong Kong and the establishment of branch offices in Hong Kong by Chinese trade, banking and retail organs.

4. Recent developments, especially since 1979, are no longer limited to the exports of Chinese goods to Hong Kong. Now I will elaborate on some more obvious developments.

5. First, Hong Kong has resumed the traditional role as a transit port of China. Since 1980, in addition to being the largest traditional supplier of goods transferred at Hong Kong, China has again become the largest market for goods transferred at Hong Kong.

6. Hong Kong's entrepot position is becoming increasingly important especially in its trade with China. Undoubtedly, this point has something to do with Hong Kong's current status as a major financial, communications, and commercial center in the Asian and Pacific area. Because trade is the lifeline of Hong Kong's domestic economy and because Hong Kong's trade volume is quite impressive, its harbor facilities are advanced and very efficient. Besides, Hong Kong also has regular sea and air transport routes to all areas of the world. Advanced cargo service is very important to the development of international trade. In this area, Hong Kong not only can provide cargo service but also is China's best natural harbor. Therefore, its work efficiency and prosperity can be of direct help to the development of international trade in China.

7. In addition to its well developed infrastructure, Hong Kong also has extensive commercial relations with all areas of the world. Chinese entrepreneurs and personages of business circles all know that through Hong Kong they can get everything they need from advanced machines to financial support for large-scale projects. Even foreigners working in China can get the consumer goods they need through Hong Kong.

8. As Hong Kong resumes the role of a transit port, we can see that recently Hong Kong's exports to China have increased rapidly and China has replaced England and West Germany to become the second largest market for Hong Kong's export goods since 1984. Hong Kong's manufacturing industries which have gradually increased their production capacity in the past few years are now capable of meeting part of China's demands for consumer goods and industrial equipment.

9. In regard to tourism, the number of Hong Kong residents going to China for business or sight-seeing purposes has increased sharply since 1979. This phenomenon is very helpful to the growth of tourism in China. Especially in the Shenzhen SEZ, the number of foreign travelers in 1984 totalled 13 million, of which, over 8 million were Hong Kong residents. This figure was estimated to increase by 40 percent in 1985, namely to 11 million [sic]. Obviously, because the two places are very close, having a short vacation in China is extremely appealing to Hong Kong residents.

10. A relatively important long-term development is expanding trade between Hong Kong and China in the field of services including shipping, transport,

insurance, cargo handling, banking and advertising. As far as these services are concerned, China seems to have only imports but no exports. This is most noticeable in the expansion of international trade in China. Before I finish this speech, I will talk a little more about the issue of using Hong Kong's financial and economic services because these service trades might just be the industries that are extremely important both to maintaining and upgrading Hong Kong's status as an international financial center.

11. Since 1979, China has devoted to encouraging foreign businessmen to invest in China. In this regard, we have also witnessed a major development in Hong Kong's role in China's economy. China's efforts to encourage foreign investment are generally welcomed by foreign investors. Their forms of investment are different, including direct investment, joint ventures, cooperative enterprises, joint development, compensation trade, processing of imported materials, and assembly industries. Another thing I have to point out is that in addition to the additional capital provided by foreign businessmen, technology imports and local personnel training are also China's main targets.

12. A report released by the Ministry of Foreign Economic Relations and Trade shows that in the 5 years between 1980 and 1984, a total of 931 joint equity companies were established in China and a total of \$1.4 billion were invested. On top of the list were investors from Hong Kong and Macao. They invested a total of \$800 million and owned approximately 700 joint equities companies. Therefore, Hong Kong is a major source of investment for China. Especially in the Shenzhen SEZ, about 80 to 90 percent of investment is believed to have come from Hong Kong.

13. Because it is close to Hong Kong, the Shenzhen SEZ has attracted most of Hong Kong capital, but there are also quite a few Hong Kong investments farther inland. We can see that many projects in Guangzhou and Shanghai and hotel construction in such Chinese cities as Guilin, Xian, Guangzhou, Shanghai, and Beijing all have Hong Kong investments.

14. Hong Kong has engaged in various types of investments in China, but as of today, Hong Kong's greatest contribution may be providing a medium for China's technology imports and human resource development in the fields of building and catering industries and hotel and industrial management.

15. Fortunately, investments are bilateral in the economic relations between Hong Kong and China. Since the late 1970's, China has rapidly increased its direct investment in Hong Kong. Since China adopted the open-door economic policy, Hong Kong companies with active Chinese involvement have made some marked improvements. In addition to speeding up the development of those industries in which they have been traditionally involved, these companies have marched toward material investment, trade, manufacturing industries, financial and relevant service industries.

16. In addition to making profits and increasing Chinese foreign exchange, Chinese investments in Hong Kong can also serve other purposes. First, due to the involvement in diversified trade, financial, and other commercial

activities, Hong Kong's market economy may be the most free and competitive one in the world. It provides the most ideal environment for Chinese companies and their staff to get to know the techniques they need especially for successful international trade. Second, by investing in real estate and hotel management, Chinese-funded companies can obtain the most modernized buildings and know-how in hotel management. Last, through its investments in Hong Kong's manufacturing industries, China can import science and technology and manufacturing techniques to benefit its modernization.

17. Hong Kong welcomes those people who have faith in its lifestyle, economy and future and I have no doubt at all about the point that Chinese investments are conducive to Hong Kong and can help maintain Hong Kong's prosperity.

18. The last major development that I hope you will pay attention to is about the fact that China recently has continued to increase the use of Hong Kong's financial circle. You may recall that I mentioned this point a while ago when I was talking about the service industry. If China wishes to seek international loans to finance its development plans, as a major financial center, Hong Kong certainly can provide some help. In addition to raising funds, Hong Kong's financial and relevant commercial and service industries can also help improve managerial skills, provide specialized know-how and spread imported science and technology, especially science and technology regarding computers and data information. It is especially useful for Hong Kong and Chinese experts to exchange opinions at such places as this forum. We can do a lot of things when we are together.

19. This benefits both sides. Hong Kong would benefit from the establishment of more international companies whereas using the method of engaging in the granting of loans as a banking group and issuing bonds and savings certificates to provide financial services and opinions for China and help China squeeze into the international money market would further consolidate Hong Kong's role as the major financial center in the Asian and Pacific area.

20. I hope that during the search for recent developments in the economic relations between Hong Kong and China, I have already explained how to understand Hong Kong's role in China's economic development.

21. I would not doubt that basically Hong Kong is playing an important role in the fields in which it has gained advantages. For instance, Hong Kong has foreign transport facilities such as cargo stations, advanced shipping and air transport services, commercial links to all areas of the world, very advanced telecommunications equipment, construction science and technology, hotel and catering service management and know-how, light industrial management and production techniques, financial and relevant commercial and service trades, and funds that are available at all times. Moreover, Hong Kong also owns a very special asset which gradually becomes known to more and more people, that is, in many aspects, Hong Kong is bilingual. Although the majority of the population in Hong Kong speak Cantonese (some speak Mandarin), a very large part of the population and an increasingly large number of people speak English--the international business language. In the future, the bilingual characteristics of Hong Kong society will be extremely important. If Hong Kong loses this characteristic, its position in international business circles would be damaged and may not be salvaged.

22. In sum, in the foreseeable future, Hong Kong will continue as China's major transit port, a main source of foreign exchange earnings and foreign investment, a competitive source of supplies, and an important "window" that can help import science and technology and techniques to China.

23. Hong Kong and China have developed economic relations that are very favorable to both sides. Hong Kong's future prosperity will be closely linked to China's success in its modernization plan. What happens in the future will affect not only Hong Kong and China themselves but also the model and scale of economic growth and development in the Asian and Pacific area.

24. We already have a very good start.

12302

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FOREIGN TRADE AND INVESTMENT

SHANGHAI VOLKSWAGEN JOINT VENTURE EXPECTS PROFITS BY 1987

Frankfurt/Main FRANKFURTER ZEITUNG/BLICK DURCH DIE WIRTSCHAFT in German 1 Aug 86 p 2

[Article by boeg: "VW China Has Almost no Losses"]

[Text] Shanghai--Since 1 September 1985, Volkswagen AG has been operating a joint venture in Anting, a district of Shanghai, the largest city in China. VW holds 50 percent of the Shanghai Volkswagen Automotive Company LTD (SVW). Three Chinese partners split the other half: the Bank of China holds 15 percent, the Shanghai Tractor Automotive Corporation 25 percent and the China National Automotive Industry Corporation, the central umbrella institution for all automotive activities, holds the remaining 10 percent. At the present time, the factory turns out 34-36 vehicles of the Santana model each day; according to information provided by Dr Martin Posth, one of the four members of the board of directors of SVW, "[these vehicles] are of an amazingly good quality." By the end of this year, an output of 40 vehicles a day will have been reached. For the mid-term, this number is to be increased to 100, and in the long run to as many as 1,000. Up until now, almost all parts have been brought from Emden as CKD sets ("completely knocked down"); only the tires, radios and antennae are currently being manufactured in China, but 60 other individual parts are to be produced in-country within the next two years. In addition to the long transportation time of 13-14 weeks and the corresponding tying-up of capital, the considerable costs involved are a factor for SVW. Nonetheless, Dr Posth is confident that at least Volkswagen AG will show a profit already this year--and that by 1987 at the latest, the VW joint venture will be out of the red.

Negotiations were recently concluded concerning the re-determination of prices for the Santana model: the price has been raised from 50,000 to 55,000 yuan renminbi. The main reason for this is due to changes in the rate of exchange between the Deutsche mark and the yuan renminbi. One hundred vehicles of the Audi type will be assembled this year by SVW, an experimental series for the projected future production of 10,000 vehicles annually. In order to meet the wishes of many Chinese customers for a roomy, versatile automobile, for the time being Passat Variants will be imported assembled by SVW.

The most important news within the company is the introduction of a new payroll system. A system of incentive bonuses is superimposed on a base wage. All divisions between blue and white collar workers and management have been eliminated; instead of status, only functions and performance are considered. The lowest monthly wage, including bonuses, amounts to about 140 yuan, the highest to about 300 yuan. According to official figures, the average monthly salary in China amounts to just under 40 yuan. SVW has attracted particular attention with its contractual provision for seven vacation days each year, since paid vacation time had been previously unknown in China.

12/92

CSO: 4620/65

1 October 1986

FOREIGN TRADE AND INVESTMENT

TRADE CURBS SUCCESSFUL IN HALTING HARD CURRENCY DEFICITS

Frankfurt/Main FRANKFURTER ZEITUNG/BLICK DURCH DIE WIRTSCHAFT in German 31 Jul 86 p 2

[Article by Sz: "Peking Curbs Foreign Currency Losses; The Trade Deficit Was Reduced by Half in the First Six Months/Import Declines as Price"]

[Text] Frankfurt--With the announcement of China's economic statistics for the first half of 1986, the figures for foreign currency reserves, for the trade deficit, for increasing exports and falling imports have been stressed and interpreted as a great success of the current economic reform. This is particularly important to the political leadership of the country, as voices have been raised which characterized the trade deficit as a counterrevolutionary chronic borrower.

The steady decline of foreign currency reserves has been halted, according to Chen Muhua, governmental advisor and president of the Chinese People's Bank, at a conference held by the Agricultural Bank in Beijing. Mrs Chen reported that China earned 14.8 percent more from foreign trade in June of this year and imported 3.2 percent less than during the same month in 1985. Recently published figures indicate that foreign currency reserves at the end of March had risen to \$10,348 billion, while they were still at \$11,913 billion as of 31 December 1985. This development points to a further increase in hard currency reserves. As Mrs Chen explained, more money has been taken out of circulation during recent months, urban and rural savings have steadily increased and industrial and agricultural production was better supplied with credit during the first two quarters.

China's trade deficit was reduced during the first 6 months of 1986 by better than 50 percent as compared with the same period last year, announced NEI/CHINA, the official news agency, referring to the most recent figures published by the trade ministry. The decline occurred despite greatly reduced oil prices, a factor which had a serious impact on exports. The trade deficit fell to \$1.24 billion as compared with \$3.16 billion during the same period in 1985. Non-petroleum exports rose this year by 38.9 percent, but again for reasons to do with the drop in the price of oil on international markets, overall exports rose only by 13.7 percent to \$12.8 billion, according to statistics from the ministry. "We have every reason to believe that the situation in non-petroleum exports will improve in the second half of the

current year," said a government spokesman. "Exports are abundant and business is excellent." China has cautiously reduced imports by 2.7 percent to \$14.04 billion. The most important export commodities in addition to oil in the first half of the current year were grain, textiles, metals, minerals and machines. Imports of copper, aluminum, fertilizers and electrical household items, which are being increasingly mined or manufactured in China, were slowed. "Our foreign trade," said a spokesman of the trade ministry, "is developing completely in the direction of the objectives established in the seventh 5-Year Plan." According to statistics from customs authorities, last year China had an overall trade deficit of \$14.9 billion. In contrast, the trade ministry reported a deficit of \$7.6 billion at the beginning of this year.

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FOREIGN TRADE AND INVESTMENT

BRIEFS

MUNICH EXHIBIT PLANNED--An exhibit on the Chinese province of Shandong (77 million inhabitants) can be seen from 11-17 July 1987 at the Munich fairgrounds. This was arranged by Werner Marzin, head of the Munich Fair Company, in talks with the seven-member delegation from Shandong which is presently in Munich. The exhibit, which will be designed and organized by the government of Shandong, will provide a comprehensive overview of the Chinese province. The sectors of industry, agriculture, export trade, transportation and tourism will receive special attention. Shi Tao, director of the office for foreign affairs in Shandong, said that the exhibit is intended above all to improve trade and economic relations between Shandong and Bavaria. In order to intensify reciprocal contacts, an inter-state agreement was signed between the Free State of Bavaria and the province of Shandong in the summer of 1985. Thereupon the state government of Bavaria introduced itself in the Chinese industrial city of Qingdao with a large blue and white [Bavarian state colors] exhibit describing the state. Within the framework of their 5-day stay in Bavaria, the Chinese guests visited several attractions in Munich and vicinity and held discussions in the Bavarian state ministry for the economy and transportation. [Text] [Munich SUEDEDEUTSCHE ZEITUNG in German 31 Jul 86 p 16] 12792

JAPAN TRADE VOLUME FALLING--The volume of Chinese-Japanese trade has fallen in the first six months of this year by 18.5 percent as compared with the same period last year, announced the semi-official Japan External Trade Research Association (JETRO), which explained that China has greatly restricted its purchases of consumer goods from Japan. According to JETRO, Japan exports to China fell during this period by 23.5 percent to \$4.58 billion, while its imports from China fell by 9 percent to \$2.87 billion. This is the first time in the past four years that mid-year figures for this reciprocal trade have declined. Japanese exports to China of electrical appliances, television sets, washing machines and refrigerators fell between mid-year 1985 and mid-year 1986 by 45.3 percent to \$614 million, and deliveries of automobiles and ships fell by 58.3 percent to \$513 million. As a result of the decline in its foreign currency reserves, last year China began to strictly curtail imports of consumer goods and automobiles, a step which is now having a pronounced impact on its balance of trade, according to the research organization. These foreign currency reserves had fallen from \$17 billion at the end of July 1984 to \$10.3 billion at the end of March of this year. Japan's oil imports from China have remained stable in terms of volume at 38.5 million barrels during the January/July 1986 period, but have declined in terms of value, because of the drop in the price of oil, by 35 percent, to \$705 million. Between January and March 1986, Japan paid \$17.58 per barrel of Chinese oil, but only \$10.62 per barrel from April to June. [Text] [Frankfurt/Main FRANKFURTER ZEITUNG/BLICK DURCH DIE WIRTSCHAFT in German 31 Jul 86 p 16] 12792

BELJING ATTRACTS FOREIGN INVESTMENT--During the first six months of this year, Beijing sanctioned agreements with 24 joint ventures using Chinese and foreign investment, Chinese/foreign contractual joint ventures and enterprises to be operated exclusively with foreign investment. The amount involved in these agreements totals 332 million U.S. dollars of which foreign investment represents over 47%. [Excerpt] [Beijing BELJING RIBAO in Chinese 13 Aug 86 p 1]

NEW EXPORT QUALITY CONTROL SYSTEM--China's first jointly run structure to supervise the quality of export products--the Liaoning Small Group of Overseers For Supervision and Management of Export Commodity Quality--was recently established in Dalian. Its mission is to carry out comprehensive and effective supervision of the entire process of production and product circulation, namely: supervisory control of equipment capabilities in enterprises producing export commodities, production technology, management standards, export commodity quality, volume, packaging, storage and awareness of the international market situation. Its mission is also to supply factories with timely information on the international market situation. [Excerpt] Beijing GUOJI SHANGBAO in Chinese 4 Aug 86 p 1]

CSO: 4006/1330

SPECIAL ECONOMIC ZONES

BRIEFS

SHENZHEN ECONOMIC DEVELOPMENT PROSPERS--During the first six months of this year, various sectors of Shenzhen's economy showed marked improvement over the same period last year. Overall industrial output showed an increase of 13% and totalled a value of 1446 million yuan. The overall volume of export commodities increased 24.4% of which industrial products accounted for 40.8% as compared with only 30.4% during the same period last year. Shenzhen's investment in capital construction fell 32.7% and foreign investment brought in a total of \$149 million representing an increase of 11.3% over last year. [Excerpt] [Guangzhou YANGCHENG WANBAO in Chinese 7 Aug 86 p 1]

CSO: 4006/1331

LABOR AND WAGES

BANYUE TAN DISCUSSES LABOR CONTRACT SYSTEM

Beijing BANYUE TAN [SEMI-MONTHLY TALKS] in Chinese 10 Jun 86 pp 14-17

[Article by Wang Jianxin [3769 1696 4250]: "On the Labor Contract System"]

[Text] [Editor's Note] The reform of the system of the utilization of labor is an important part of the reform of the current labor system, and will be helpful in eliminating the excessive comprehensiveness and centralization of that system which is characterized by the problem of permanent employment for workers once assigned to jobs. It will be beneficial in arousing among the workers a sense of responsibility derived from the feeling of being masters at work, and an enthusiasm for production. It will further improve enterprise management, enhance labor discipline, improve the quality of workers, augment enterprise vigor, and promote the development of production. Since 1980, some places in China have begun to reform the labor utilization system and have put into test practice labor contract systems. In this issue, we have invited Comrade Wang Jianxin of the Bureau of Labor Planning of the Ministry of Labor and Personnel to discuss, based on these test results, the inevitability of implementing a labor contract system. [End of Editor's Note]

A major part of the reform of China's system of labor utilization—the implementation of a labor contract system of responsibility—has been put into practice at test sites in every province, city, and autonomous region in the country. Practice has shown that the implementation of such a system is helpful in eliminating the problem of the "iron rice bowl," in improving the qualities of the ranks of the workers, enhancing enterprise vitality, in allowing enterprise and worker, under certain conditions, to choose each other, in gradually realizing the socialization of labor management, and in adapting to the development needs of the planned, commodity economy.

China's system of labor utilization has gone through a complex, tortuous course of evolution. In the early years of the PRC, in order to resolve the serious unemployment problem left over from the old society, to settle the political situation, and swiftly restore the national economy, a policy of undertaking everything involved regarding the enterprises of bureaucratic capitalists and Kuomintang military and government personnel was adopted by the state. Later, the scope was expanded, and work was assigned to the newly emerging labor force in every city and town by the state in a centralized fashion and a fixed

labor system was implemented. Although this allowed the workers to work contently, avoided an irrational labor flow and promoted a stable social order, the combination of the fixed labor system and the egalitarianism of wage distribution and of the "iron rice bowl" and the "big pot" produced a series of problems:

1. The erosion of the workers' enthusiastic spirit of actively forging ahead. With the fixed labor system, no matter what the workers' attitude toward labor, ability and competence, the "iron rice bowl" encouraged laziness, dependence, and lax labor discipline in some people. At present, after the enterprise rectification conducted in China, this situation still exists in many units to differing degrees. In addition to the lack of effective ideological and political work, a major reason is the fixed labor system, the lack of discrimination between good and bad work and the state's system of centralized management.
2. Limiting the workers in making rational career choices hinders them from putting their intelligence and talent to full use for the cause of socialist construction. In the fixed labor system, a worker's job is generally assigned for life. Even if the worker cannot use his abilities and what he has learned at work, he must remain where assigned. This is detrimental to encouraging workers to engage in technical and professional research, in the maturation of talent, and in the enhancement of the quality of the ranks of the workers.
3. It is detrimental to the improvement of enterprise management and labor productivity. In the fixed labor system, enterprises cannot obtain the personnel they need, nor can they let go of those they do not need, which makes the rational disposition and economic utilization of the labor force difficult. At present, many enterprises have a great many excess personnel, while faced with a shortage of skilled technical workers for primary production and an irrational labor structure of the primary, secondary, and tertiary industries. One reason for this is that the fixed labor system does not allow labor departments or the enterprise ownership system and workers to flow rationally throughout all of society.
4. It hinders the opening up of wider, livelier avenues for employment. Under the fixed labor system, someone with a fixed job is regarded as "fortunate," which causes those awaiting work assignment to pin their hopes on the state and puts a damper on the enthusiasm of all social circles to take the initiative to create avenues of employment. This is detrimental in implementing the employment principle of "the three integrations" and in developing the collective and individual economies.

The system of fixed labor no longer suits China's social and economic development needs and must be reformed by all means.

The labor contract system utilizes the legal form of labor contracting to form and readjust the labor utilization system based on the relationship between the

enterprise and its workers. This system requires that in recruiting workers, the enterprise base itself on the principle of bilateral mutual consent and establish a labor contract system.

The labor contract system entails the stipulation of conditions regarding: the tasks undertaken by the worker, the term of contract, labor conditions, remuneration for labor, social welfare measures, labor discipline, awards and penalties, alterations in and cancellation of labor contracts, what responsibility is to be taken for violations of contract, and whatever items both parties feel are necessary. The term of contract is to be determined by the enterprise based on the needs of production (work) and consultation with the worker himself, and can vary. When the contract expires, if there is a continued production (work) need, it can be renewed by both parties. Once a contract is signed, its binding force on both parties must be strictly observed. Thus, it can be seen that as a new form of labor-utilization system, the labor contract system manifests the integration of economic, legal, and administrative methods, and the unification of responsibility, authority, and economic results. It is helpful in maintaining stability in the ranks of the workers and can promote rational worker flow. All of this reflects the fact that the labor contract system maximizes the advantages and minimizes the disadvantages of the fixed labor system.

Like the workers of the fixed labor force, contract workers recruited by enterprises are also the masters of their enterprises, have equal political rights and participate in the democratic management of the enterprise. Contract workers who make special contributions should be awarded political honors and material incentives according to state regulations.

The implementation of the labor contract system is in accordance with the overall aims of the reform of China's economic system and is an objective need of social and economic development in China.

First, it suits the essential nature of large-scale, socialized production, in which the constantly shrinking renewal times of new technologies, processes, and equipment and the constant reduction of the expenditure of live labor leads to rising production rates. The constant aging of some older, traditional industries and continued emergence of new industries have given impetus to the social flow of the labor force. On the other hand, the specific production processes involved in large-scale socialized production requires a relatively stable body of skilled workers in order to ensure sustained production. With the implementation of the labor contract system, the mobility and stability of the labor force can be dialectically united.

Second, it meets the development needs of China's planned, commodity economy. Such an economy requires that all sectors of the national economy and enterprises not only fulfill the production norms of state directive planning, but also, with the guidance of state planning, organize production based on market needs. This will lead to changes in the quantity and quality needs of each

department and enterprise for labor and will necessitate the distribution and redistribution of the labor force. The labor contract system will facilitate the flexible readjustment and the socialized management of the labor force under the guidance of the plan.

Third, it meets the needs involved in enhancing enterprise vitality. If the enterprise is to genuinely become a relatively independent, autonomous producer and manager of commodity production responsible for its own profits and losses, it needs not only autonomy over production and business management, but over the utilization of labor as well. The labor contract system has expanded enterprise autonomy in the use of labor—people needed in production can be obtained, while those not needed can leave. This maintains a rational labor force structure, organizes production based on a fixed number of workers and norms and increases labor productivity and economic returns.

Fourth, it is in accordance with the special characteristics of socialist labor. In the stage of socialism, labor has a dual nature. It both serves society and is a means of making a living at the same time. As labor has not yet become the primary need of life, people need to seek employment based on their individual skills, interests, and physical characteristics. Allowing the worker to choose his job is helpful in the development of talent and in arousing the workers to take the initiative and be creative. The labor contract system grants these rights to the workers.

Fifth, it is adapted to the needs involved in the creation of labor law. Comrade Deng Xiaoping has pointed out: "The relationships between the state and the enterprise, between enterprises, and between the enterprise and the individual also require the confirmation of legal forms. Quite a few contradictions between these entities must be resolved by legal means." The labor contract system is in complete accordance with and manifests this principle. With the signing of labor contracts, the relationship between both parties obtains a legal guarantee.

We believe that with the impetus of the overall economic reform, a vigorous, vital contract system with Chinese characteristics can definitely be widely implemented nationwide.

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LABOR AND WAGES

GUANGMING RIBAO ON ANIMATE LABOR MARKET

HK031206 Beijing GUANGMING RIBAO in Chinese 23 Aug 86 p 3

[Article by Zhao Lukuan [6392 1462 1401] and Yang Tiren [2799 7555 0088]:
"Is It a Labor Force Market or an Animate Labor Market?"]

[Text] Along with the expansive development of our economic restructuring, the production factors such as instruments of labor, capital, and technology have entered or are entering different markets. Can the most important production factor--animate labor--enter the market?

The previous stage of economic restructuring, especially the reform of the wage system of enterprises, has proved that an animate labor market has to be opened. Otherwise it will be impossible to establish a labor economic structure appropriate to the socialist commodity economy.

Labor Force Is Not a Production Factor; Only Animate Labor Is a Production Factor

Marx summarized the process of labor as an organic combination of the following three factors: "Purposeful activity or labor itself, the subject of labor, and the means of labor." ("Selected Works of Marx and Engels," Vol 23, p 202) Viewed from the process of labor, the former can be regarded as the factor of man and the latter two are taken as factors of matter, in other words, the means of production. Part of the means of production can be used in the course of production without being processed through labor, and these can be considered naturally-existing production factors. Another part of the means of production is the products processed through labor, namely, materialized labor factors. Marx called "purposeful activity or labor itself" the "animate labor" factor.

Animate labor is a production factor. This is an indisputable fact. However, people often describe the labor force as a production factor and equate the labor force with animate labor. This is obviously not scientific. The labor force refers to the labor capability of man, which refers to potential. When it is not used, it has nothing to do with the course of production. Only when the labor force is brought into play, in other words, only when it becomes animate labor, will it become a production factor. Animate labor refers to the use of the labor force. It is thus

clear that the labor force is not a production factor; only animate labor is a production factor. Animate labor and the labor force are two different concepts. A certain amount of the means of production should be operated by a certain amount of animate labor.

Animate Labor Is Not a Typical Commodity But a Specific Commodity

Entering the production factor of animate labor in the market is necessary for developing the socialist commodity economy. However, we must first recognize that animate labor is a commodity before we recognize the animate labor market. If animate labor is not a product of labor, how can it be a commodity? Animate labor is the source of value. If it is of no value, how can it have a "price?" We are of the opinion that the key to the question lies in understanding the particularities of such a commodity as animate labor.

Commodities are products of labor. Their value is based on the amount of materialized social labor. This is the characteristic of a typical commodity. The difference between specific and typical commodities is that a specific commodity does not have all the characteristics of a typical commodity. However, like a typical commodity, it is transferred through an exchange on the basis of a corresponding amount of money. This means that it is transferred to others at a given price. Therefore, animate labor is a commodity, but it is a specific commodity.

In fact, there are specific commodities in any type of a commodity economy. In all kinds of production factors, only the production factors which are materialized through labor and are traded in the market are typical commodities; other production factors which are traded in the market are not typical commodities but specific commodities. Land is not a product of labor because it does not have all the characteristics of a typical commodity. However, under capitalism, land owners can transfer their land to other people at a given price. Similar to land, the labor force is also a specific commodity under capitalism.

Under the condition of the socialist commodity economy, whoever provides (transfers) animate labor, which is taken as a production factor, can get a corresponding amount of monetary reward under the law of value and the law of distribution according to work; that is to say, he can get a certain amount of wages. It is thus evident that under socialism, labor itself is of no value, but it has a price--monetary wages. This means it has the characteristics of a specific commodity. Under the condition of a commodity economy, the principle of distribution according to work is implemented through the market mechanism of animate labor.

Capitalism - Labor Force Commodity - Labor Force Market
Socialism - Animate Labor Commodity - Animate Labor Market

Whether under the conditions of the capitalist commodity economy or under the conditions of socialist commodity economy, the animate labor factor should be supplied and obtained through the market. This is because all

commodity economies are inseparably linked to market mechanisms. The difference is that while the labor force under capitalism is a commodity, the labor force under socialism is not a commodity. Therefore, under capitalism the animate labor factor can only be supplied and obtained in roundabout ways through the labor force market; under socialism, however, the animate labor factor can be supplied and obtained directly through the animate labor market. In the final analysis, the difference between the methods of supplying and obtaining the animate labor factor under two socioeconomic systems lies in the difference between two economic relationships, namely, the exploitative relationship and the nonexploitative relationship.

Under capitalism, it is the law of value and the law of surplus labor that control the labor force market. Wages are an expression of the value of the labor force in monetary terms--the price of the labor force. The wage level in some capitalist countries is relatively high. However, judging from the developmental level of the productive forces and the level of living expenses in these countries, their wage level still has not exceeded the level of expenses needed to reproduce the labor force.

Under socialism, it is the law of value and the law of distribution according to work that control the animate labor market. Wages are not the price of the labor force but of animate labor. They are veritable "payment for labor." That is to say, under socialism, the wage level may not be restricted by the expenses needed to reproduce the labor force. We can "relieve this portion of its capitalist limitations and extend it to that volume of consumption which is permitted, on the one hand, by the existing productivity of society (that is, the social productivity of man's individual labor that is actually social), and, on the other hand, by the full development of the individuality required." ("Complete Works of Marx and Engels," Vol 25, p 999)

In short, because the socialist relationship of distribution according to work has replaced the capitalist relationship of exploitation, the socialist commodity of animate labor has replaced the capitalist commodity of the labor force and the socialist market for animate labor has replaced the capitalist market for the labor force.

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CSO: 4006/1337

TRANSPORTATION

BRIEFS

RAILWAY RENOVATION PROGRAM—Beijing, 6 Sep (XINHUA)—The renovation of 16,000-kilometers of railway in China's eastern coastal areas is now in full swing, sources from the ministry of railways told XINHUA here today. "The operation is to ease crowded transportation in China's northeast and southeast, which are the economically developed regions of the country," an official from the ministry said. Since these regions account for more than 70 percent of the gross national product, the railway bottleneck is thwarting development plans. "All railway hubs will be renovated and stations expanded. In addition, sophisticated communication and signal equipment will be installed," he said. The Beijing to Shanghai line will be made the "most-advanced model" for China's 50,000 kilometers of railways, he said. The operation, considered one of the two key projects for the ministry during the seventh five-year plan period (1986-1990), is scheduled to be finished by the end of 1990. The other project is to increase engine production and improve output quality, the sources said. [Text] [Beijing XINHUA in English 1036 GMT 6 Sep 86 OW] /9738

RAILWAY TRUNK IN EAST—Beijing, 4 Sep (XINHUA)—Another trunk railway will be constructed in east China and the project is expected to be completed before 1990, according to the Ministry of Railways here today. The rail route, totaling more than 1,000 kilometers, will run from Shangqiu City in Henan Province to the Zhejiang provincial capital of Hangzhou via Anhui Province. While revamping of the existing sections of the railway, the project also includes the construction of two new sections—one from Fuyang City in northern Anhui to Shangqiu on the Longhai Railway, China's trunk line running west to east, and the other from Xuancheng County in southern Anhui to Changxing County in northern Zhejiang. Changxing is already connected by rail to Hangzhou. After its completion, the trunk railway will carry about 20 million tons of freight a year. The Beijing-Shanghai-Hangzhou railway, the only trunk route from north to east China, is now running on full capacity. The commissioning of the new line will help to relieve the pressure on rail transport and lay a foundation for further economic development in east China. In addition, the railway linking Hangzhou to the Jiangxi provincial capital of Nanchang will be double-tracked so as to raise rail transport capacity in east and south China. [Text] [Beijing XINHUA in English 1508 GMT 4 Sep 86 OW] /9738

OUTPUT, PROFIT STATISTICS—Beijing, 8 Sep (XINHUA)—China yielded 73.48 billion yuan in industrial output value in August, more than any previous month of this year and 8.7 percent over August 1985, the State Statistical Bureau reported today. It produced 38.24 billion kWh of electricity, and fulfilled or overfulfilled the output targets for all major raw and processed materials, including iron ore, pig iron, steel, rolled steel, glass and cement. Nevertheless, officials here called attention to the fact that industrial profits and taxes were less, and production cost higher. What is important at present is to improve the economic results of industrial production, rather than industrial output value, they told XINHUA. [Text]
[Beijing XINHUA in English 1358 GMT 8 Sep 86 OW] /9738

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PUBLICATIONS

CHINA TO PUBLISH FIRST S&T WHITE PAPER

Beijing JINGJI RIBAO in Chinese 26 May 86 p 1

[Article by correspondent Liang Yibang [2733 3085 3203]: "China to Publish First S&T White Paper"]

[Text] The State Science Commission with the permission of the State Council will publish an S&T white paper—"China S&T Policy Guide." This is the first document our country has issued on state policy in the white paper format.

State Council member and State Science Commission chairman Song Jian [1345 0256] wrote a preface to the white paper. The white paper, nearly 500,000 characters long, has six chapters on historic shifts in policy, policy and legislation, R&D, commercialization of research results, environment and resources, and statistical indicators.

China issues this national policy statement in the white paper format as part of reforms aiming at reducing planning by state organizations and at strengthening macroeconomic planning. The white paper will help the broad masses and units at the grassroots understand directly the various S&T policies of the party and the state. They will learn what the state does and does not permit so that they will be able to implement policy more intelligently.

China's first white paper on S&T assembles and explains the essence and basis of the S&T policy laid down by the party and the state since the 3rd Plenum of the 11th CPC Central Committee. It reveals the basic situation of Chinese S&T and places it on a statistical basis. It collects representative talks, documents, regulations and decisions.

The white paper for the first time publishes the S&T policy set by China in 12 areas including energy, transportation, machinery, consumer goods, industries, communications, agriculture, materials, building materials, development of villages and townships, urban development, environmental protection, housing in the cities and townships, etc.

The white paper, to be published by the Science and Technology Documents Publishing Co. will be distributed by Xinhua Bookstores throughout the country beginning in August.

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HONG KONG

INCREASE IN STUDIES OF HONG KONG ECONOMY REPORTED

HK281231 Hong Kong WEN WEI PO in Chinese 27 Aug 86 p 2

["Special Feature" by Beijing correspondent Cheng Xiang [4453 5046]:
"Upsurge of Mainland Studies of Hong Kong's Economy"]

[Text] Beijing, 16 Aug--In mid-August, more than 120 experts and scholars engaging in the study of Hong Kong's economy gathered in Yichang, Hubei Province, to exchange their experiences in this study. They came from all parts of the country, including both central and local government departments and all kinds of academic organizations. Judging from the places and units they had come from, we can see that an upsurge of studying Hong Kong's economy has been set off on the mainland at present, which is characterized by a "vigorous development of research institutions."

The Earliest Research Institute

The earliest research institute for this study was the "research center of Hong Kong and Macao economy" under the Economics Institute of the Chinese Academy of Social Sciences, which was established in August 1980. This research center has more than 20 research fellows, with Gu Nianliang [0657 1819 5328] as the director and Zhou Weinian [0719 4850 1628] as deputy director. It publishes a monthly entitled "Hong Kong and Macao Economy." It is the earliest and largest research institute in the whole country, and its academic activities are most frequent (including seminars and publications). [as published] Beginning from January this year, it has been under the direct leadership of the Guangdong Academy of Social Sciences.

Since the establishment of this institute, especially since the Sino-British talks began, dozens of similar research units, though different in size, have appeared in China. They can be divided into the following types:

1. All central departments which are relatively closely related with Hong Kong and Macao affairs have established special organizations to study those affairs. For example:

The Hong Kong and Macao Affairs Office of the State Council established an "Institute of Hong Kong and Macao Studies" at the beginning of this year.

The International Trade Research Department under the Ministry of Foreign Economic Relations and Trade has a special department for the study of trade with Hong Kong and Macao.

The International Financial Institute under Bank of China has established a special department to study Hong Kong's financial affairs.

The research institutes under the State Planning Commission have also appointed some people to take charge of relevant studies.

Providing Consulting Services for Government's Policy Decisions

2. Research institutes established by local governments are responsible for providing consulting services for the government in order to make policy decisions. They are generally attached to the policy research offices of provincial and city governments. Naturally, Guangdong, Fujian, and the four special economic zones, which are close to Hong Kong and Macao, have all established a "department of Hong Kong and Macao economic affairs" in their policy research offices. In the policy research offices of the provincial, city, county, and district governments of these two provinces, there are dozens such departments. Some of them have periodical publications, but some have not. Their main tasks are to study the developments in Hong Kong and Macao and collect information for the leaders to work out policy decisions.

3. Some organizations have been established by various academic units to study Hong Kong and Macao.

People Specially Assigned for Studies of Hong Kong and Macao's Economy

Apart from the above-mentioned research center of Hong Kong and Macao economy under the Chinese Academy of Social Sciences (established in 1980), Guangdong's Jinan and Zhongshan Universities have also established an "institute of economic affairs in the special economic zones, Hong Kong, and Macao" (established in 1983) and an "institute of Hong Kong and Macao" (also established in 1983). Also, the economic department of South China Teachers' University and Shantou University also established an institute of Hong Kong and Macao economy respectively in 1984 and 1985. The East Asian Research Institute of Fujian's Academy of Social Sciences and the economic institute of Xiamen University also established a special organization recently to study economic affairs of Hong Kong and Macao.

Except for Guangdong and Fujian, the studies on Hong Kong and Macao's economy are usually carried out in large cities. In Shanghai, the Institute of World Economy under the Academy of Social Sciences also established a "Hong Kong and Macao economic research office" (in 1982). In addition, some research organizations have also been established in the Shanghai Economic Research Center, Shanghai International Affairs Research Center, and the Economic Department of Fudan University.

In Beijing, special offices for the study of Hong Kong and Macao affairs have been established by the Economics Institute and the Institute of Taiwan Studies under the Chinese Academy of Social Sciences. The Institute of Geography under the Chinese Academy of Sciences also studies Hong Kong and Macao affairs from a geographic angle.

In other provinces and cities, "economic research centers" and other similar organizations have also been established, but their research personnel and achievements cannot be compared with the above-mentioned large cities.

Staff Office of Hong Kong and Macao Affairs Office

Among the numerous research institutes, the Institute of Hong Kong and Macao Studies under the Hong Kong and Macao Affairs Office of the State Council is particularly important to Hong Kong people. This institute was formally established in October 1985 with the approval of the State Council. It is a unit directly under the Hong Kong and Macao Affairs Office, with Yong Longgui, member of the Hong Kong Basic Law Drafting Committee, as honorary chairman, and Ji Chongwei, executive director of the economic, technical, and social development center of the State Council, as advisor. No one has been appointed to the post of director of this institute. The deputy director is Chen Baoyan [7115 1405 8827] (former official in the Ministry of Foreign Economic Relations and Trade who once worked in Hong Kong's China Resources Company for several years). It could have more than 40 staff members, but at present, it only has more than 10. The main task of this institute is to provide reference materials and opinions for working out policy decisions on Hong Kong and Macao issues. It thus becomes a staff office of the Hong Kong and Macao Affairs Office.

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